

Connecticut General Assembly
OFFICE OF FISCAL ANALYSIS

**Description of General Fund
And
Transportation Fund Revenue
Sources
December 2001**

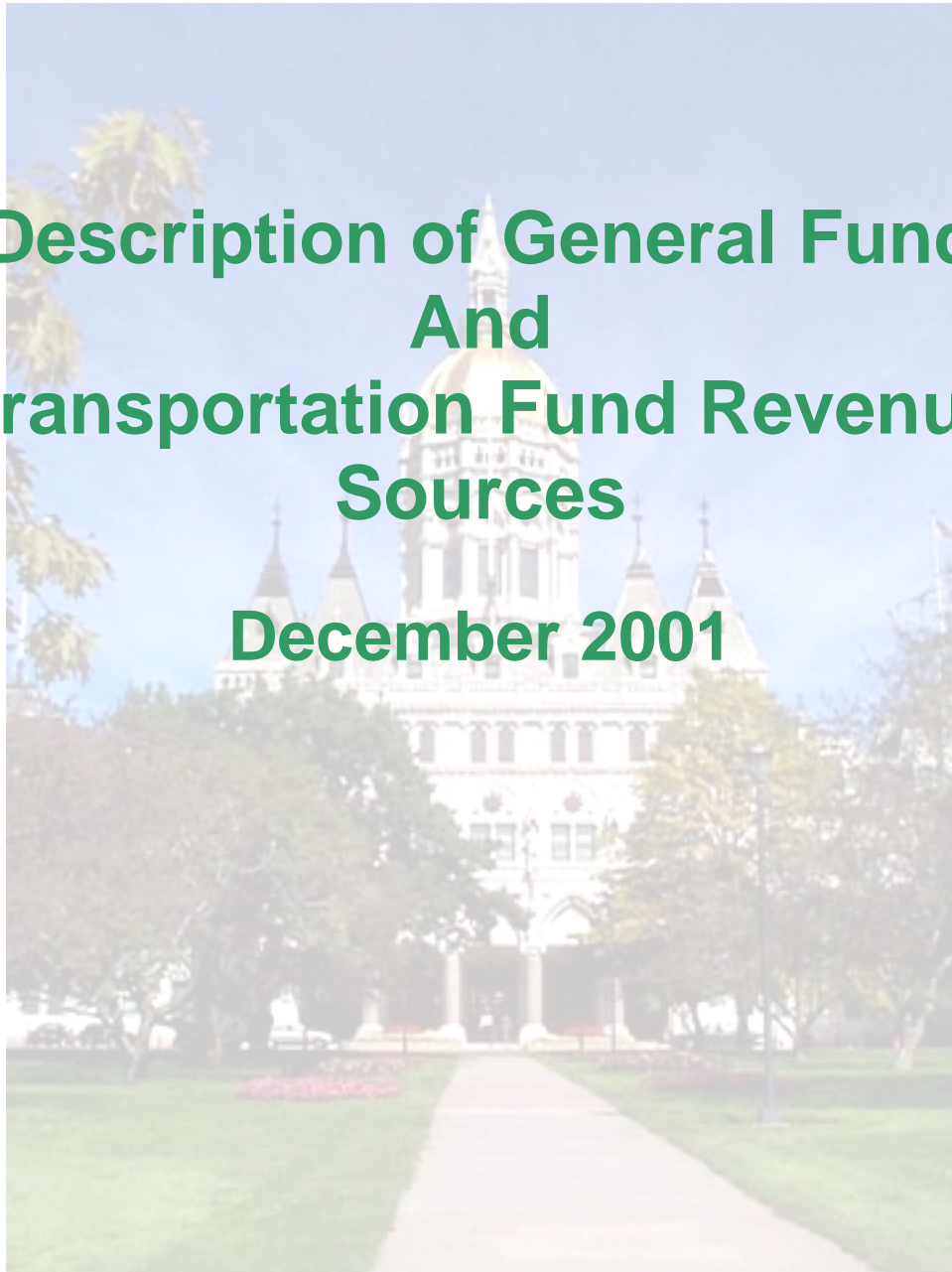


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Any comments or questions concerning the information contained in this document, or suggestions would be welcomed by: **The Revenue Section, Office of Fiscal Analysis, LOB 5200, 300 Capitol Avenue, Hartford, CT 06106.**

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GENERAL FUND TAXES

PERSONAL INCOME TAX (CGS Section 12-700)

During the 1991 June Special legislative Session the General Assembly enacted Public Act 91-3 which imposed a tax on the income of resident individuals, trusts and estates, and on the income of nonresident individuals, trusts and estates derived from sources within the state, at a rate of 4.5% for the income years commencing on or after January 1, 1992. Specifically, the tax is levied on Connecticut taxable income which is defined as adjusted gross income for federal income tax purposes with certain modifications and exemptions.

Computation of Tax

Rate & Basis - The tax is imposed on income of individuals at the rate of 3% for the first \$10,000 of taxable income for Single and Married Filing Separate Filers, the first \$16,000 of taxable income for Head of Household and the first \$20,000 of taxable income for Couples Filing Jointly. The tax rate on the remaining taxable income is 4.5% for all filers. Trusts and estates derived from sources within the state are taxed at the rate of 4.5%. (CGS Sec. 12-700)

Taxpayers are required to pay the higher of their liability under the state Personal Income Tax or the Connecticut Minimum Tax. The Connecticut Minimum Tax is the lesser of 19% of Adjusted Federal Tentative Minimum Tax or 5% of adjusted federal alternative minimum taxable income. (CGS Sec. 12-700a)

The tax is levied on Connecticut adjusted gross income (AGI) which is defined as adjusted gross income for federal income tax purposes, subject to certain additions and deletions. Additions include such things as interest and dividends from obligations (such as bonds) from other states, or subdivisions of other states, unless federal law requires them to be exempt from state income taxes. The deletions include such things as (1) any income included in adjusted gross income that federal law exempts from state taxation, (2) the amount of refunds or credits for overpayments of income tax, (3) exempt dividends paid by a regulated investment company, (4) tier one railroad retirement benefits, (5) Social Security Benefits for Couples Filing Jointly with AGI under \$60,000 and Single Filers with AGI under \$50,000 (for taxpayers whose income levels exceed these, only 25% of the benefits are includable in calculating CT AGI), (6) restitution payments to survivors of various human rights abuses during World War II, and (7) interest earned on funds deposited in the Individual Development Account are exempted from the tax. The Individual Development Account was created by PA 00-192 to allow certain low-income and qualified disabled taxpayers to open savings accounts and receive matching funds as an incentive for saving for specific purposes.

Special rules are established for determining whether the income of a nonresident or a part-year resident individual, a partner's distributive share of partnership income, a shareholder's pro rata share of S corporation or limited liability company income and a beneficiary's share of trust or estate income is derived from sources within the state and how income gains, loss, and deductions are allocated.

The tax imposed on income earned by resident and nonresident trusts and estates is similar to the one applied to individuals except that the trusts and estates do not receive the exemptions and credits that individuals receive. The tax must be paid by the fiduciary. Special rules are established for determining what income is derived from sources within the state for nonresident and part-year resident estates, trusts and beneficiaries and how income, gains, loss and deductions are allocated.

Exemptions - For income year 2002 an unmarried person is entitled to a personal exemption of \$12,500. Beginning at an AGI of \$25,000, the exemption decreases by \$1000 for each \$1000 increase in AGI. There is no exemption if the taxpayer earns more than \$38,250. The low income credit for the 2002 income year is as follows (CGS Sec. 12-703(a)):

<u>Connecticut AGI</u>	<u>Tax Credit</u>
Below \$12,750	100%

Over \$12,750 but below \$15,900	75%
Over \$15,900 but below \$16,400	70%
Over \$16,400 but below \$16,900	65%
Over \$16,900 but below \$17,400	60%
Over \$17,400 but below \$17,900	55%
Over \$17,900 but below \$18,400	50%
Over \$18,400 but below \$18,900	45%
Over \$18,900 but below \$19,400	40%
Over \$19,400 but below \$21,300	35%
Over \$21,300 but below \$21,800	30%
Over \$21,800 but below \$22,300	25%
Over \$22,300 but below \$22,800	20%
Over \$22,800 but below \$26,600	15%
Over \$26,600 but below \$27,100	14%
Over \$27,100 but below \$27,600	13%
Over \$27,600 but below \$28,100	12%
Over \$28,100 but below \$28,600	11%
Over \$28,600 but below \$51,000	10%
Over \$51,000 but below \$51,500	9%
Over \$51,500 but below \$52,000	8%
Over \$52,000 but below \$52,500	7%
Over \$52,500 but below \$53,000	6%
Over \$53,000 but below \$53,500	5%
Over \$53,500 but below \$54,000	4%
Over \$54,000 but below \$54,500	3%
Over \$54,500 but below \$55,000	2%
Over \$55,000 but below \$55,500	1%

The exemption for head of household is \$19,000. Beginning at an AGI of \$38,000, the exemption decreases by \$1000 for each \$1000 increase in AGI. There is no exemption if the taxpayer earns more than \$56,000. The low income credit is as follows (CGS Sec. 12-703(b)):

<u>Connecticut AGI</u>	<u>Tax Credit</u>
Below \$19,000	100%
Over \$19,000 but below \$24,000	75%
Over \$24,000 but below \$24,500	70%
Over \$24,500 but below \$25,000	65%
Over \$25,000 but below \$25,500	60%
Over \$25,500 but below \$26,000	55%
Over \$26,000 but below \$26,500	50%
Over \$26,500 but below \$27,000	45%
Over \$27,000 but below \$27,500	40%
Over \$27,500 but below \$34,000	35%
Over \$34,000 but below \$34,500	30%
Over \$34,500 but below \$35,000	25%
Over \$35,000 but below \$35,500	20%
Over \$35,500 but below \$44,000	15%
Over \$44,000 but below \$44,500	14%
Over \$44,500 but below \$45,000	13%
Over \$45,000 but below \$45,500	12%
Over \$45,500 but below \$46,000	11%
Over \$46,000 but below \$74,000	10%
Over \$74,000 but below \$74,500	9%
Over \$74,500 but below \$75,000	8%
Over \$75,000 but below \$75,500	7%
Over \$75,500 but below \$76,000	6%

Over \$76,000 but below \$76,500	5%
Over \$76,500 but below \$77,000	4%
Over \$77,000 but below \$77,500	3%
Over \$77,500 but below \$78,000	2%
Over \$78,000 but below \$78,500	1%

The exemption for married couples filing jointly is \$24,000. Beginning at an AGI of \$48,000, the exemption decreases by \$1000 for each \$1000 increase in AGI. There is no exemption if the couple earns more than \$71,000. The low income credit is as follows (CGS Sec. 12-703(c)):

<u>Connecticut AGI</u>	<u>Tax Credit</u>
Below \$24,000	100%
Over \$24,000 but below \$30,000	75%
Over \$30,000 but below \$30,500	70%
Over \$30,500 but below \$31,000	65%
Over \$31,000 but below \$31,500	60%
Over \$31,500 but below \$32,000	55%
Over \$32,000 but below \$32,500	50%
Over \$32,500 but below \$33,000	45%
Over \$33,000 but below \$33,500	40%
Over \$33,500 but below \$40,000	35%
Over \$40,000 but below \$40,500	30%
Over \$40,500 but below \$41,000	25%
Over \$41,000 but below \$41,500	20%
Over \$41,500 but below \$50,000	15%
Over \$50,000 but below \$50,500	14%
Over \$50,500 but below \$51,000	13%
Over \$51,000 but below \$51,500	12%
Over \$51,500 but below \$52,000	11%
Over \$52,000 but below \$96,000	10%
Over \$96,000 but below \$96,500	9%
Over \$96,500 but below \$97,000	8%
Over \$97,000 but below \$97,500	7%
Over \$97,500 but below \$98,000	6%
Over \$98,000 but below \$98,500	5%
Over \$98,500 but below \$99,000	4%
Over \$99,000 but below \$99,500	3%
Over \$99,500 but below \$100,000	2%
Over \$100,000 but below \$100,500	1%

Taxpayers receive a tax credit for income taxes paid in another state (CGS Sec. 12-704).

Credits - There is a credit of up to \$500 is for personal and real property taxes paid on the filers' primary residence in state or a motor vehicle (CGS Sec. 12-704c). The credit on motor vehicle property taxes paid is limited to two motor vehicles for joint filers and one motor vehicle for single, head of household, and married filing separate filers. The amount of credit claimed cannot exceed the filer's tax liability and may not be taken into account when calculating the amount of withholding or estimated payments due. The following is a schedule of the credit.

Schedule of Property Tax Credit*

Single CT AGI		Married Filing Separate CT AGI		Maximum Credit	2002 Income Year Maximum Credit
From	To	From	To	Above \$100	
12,750	55,500	12,000	50,250	100%	\$500
55,500	65,500	50,250	55,250	90%	\$460
65,500	75,500	55,250	60,250	80%	\$420
75,500	85,500	60,250	65,250	70%	\$380
85,500	95,500	65,250	70,250	60%	\$340
95,500	105,500	70,250	75,250	50%	\$300
105,500	115,500	75,250	80,250	40%	\$260
115,500	125,500	80,250	85,250	30%	\$220
125,500	135,500	85,250	90,250	20%	\$180
135,500	145,500	90,250	95,250	10%	\$140
145,500	And Over	95,250	and Over	0%	\$100

Couples Filing Jointly CT AGI		Head of Household CT AGI		Maximum Credit	2002 Income Year Maximum Credit
From	To	From	To	Above \$100	
24,000	100,500	19,000	78,500	100%	\$500
100,500	110,500	78,500	88,500	90%	\$460
110,500	120,500	88,500	98,500	80%	\$420
120,500	130,500	98,500	108,500	70%	\$380
130,500	140,500	108,500	118,500	60%	\$340
140,500	150,500	118,500	128,500	50%	\$300
150,500	160,500	128,500	138,500	40%	\$260
160,500	170,500	138,500	148,500	30%	\$220
170,500	180,500	148,500	158,500	20%	\$180
180,500	190,500	158,500	168,500	10%	\$140
190,500	and Over	168,500	and Over	0%	\$100

There is a credit for investors in the Insurance Reinvestment Fund against the insurance premium tax, the corporate income tax, or the personal income tax. The Insurance Reinvestment Fund was established by statute, CGS Section 38a-88a, to create new jobs by investing in CT companies engaged in the insurance business or providing services to insurance companies. The credit is equal to the following percentages of monies invested through a fund manager in a qualified insurance business: (a) 10% of the investment for tax year beginning 3 years after the date of investment to no later than 7 years after the date of investment, and (2) 20% of the investment for tax years beginning seven years and ending 10 years from the date of investment. Managers of eligible funds must have registered with the Commissioner of Economic and Community Development by July 1, 2000 in order for their investors to be able to claim the credit. No further credits will be allowed for investments in funds created on or after July 1, 2000. PA01-6 JSS sunsets the credit for investments made after December 31, 2015. It also modified the credit in a manner that the recapture of tax credits would occur when there is a reduction in state employment levels and not when there is a decrease in the percentage of total workforce in this state due to an increase in out-of-state workforce.

Payment - Employers are required to withhold taxes from wages based on the employee's estimated tax liability for the income year.

Taxpayers with taxable income from which no withholding has been made, must make quarterly estimated payments if their liability on the non-withheld income is expected to exceed \$500 (CGS Sec. 12-722). To avoid penalty, the taxpayer must pay as follows:

Personal Income Tax Estimated Payments		
	<u>Due</u>	<u>Pay the lesser of:</u>
1st	4/15	22.5% of current year or 25% of last year's liability
2nd	6/15	45% of current year or 50% of last year's liability
3rd	9/15	67.5% of current year or 75% of last year's liability
4th	1/15	90% of current year or 100% of last year's liability

An income tax return must be filed by the 15th day of the fourth month following the close of the taxpayer's taxable year. The tax due must be paid by that date whether or not a filing extension has been granted. S corporations and partnerships must file composite returns and make composite tax payments on behalf of some or all of their nonresident shareholders and partners.

In lieu of quarterly estimated payments, farmers and fishermen are permitted to make one estimated payment due on January 15th. Professional athletic teams are permitted to file composite returns for team members who are not state residents. The teams are also permitted to make estimated payments in lieu of withholding. (CGS Sec. 12-722)

The interest rate for taxpayers is 1.0% per month on the unpaid tax. Penalty is 10% of the required payment. There are also penalties for failing to collect the tax and understating wages, and criminal penalties for failure to keep records or keeping fraudulent records.

SALES AND USE TAXES (CGS Section 12-406)

The trend toward states enacting general sales taxes began in the 1930s and Connecticut became a sales tax state in 1947. As in other states, the relatively simple policy goal of the tax was to restore solvency to the state's treasury with a minimum of administrative problems and expense. To accomplish this, the tax was imposed on retail sales of tangible goods, which could be collected with relative ease. Since then, the tax has evolved into a complex structure with a lengthy list of taxable goods and services, and an even lengthier list of items which are exempt.

Computation of Tax

Rate & Basis - Connecticut levies sales and use taxes on the gross receipts of retailers from the sale of tangible personal property and on the gross receipts from the rendering of certain business services. The treatment of services under the Sales and Use Tax differs fundamentally from the treatment of tangible personal property because sales of the latter are taxable unless specifically exempted, while sales of services are excluded unless enumerated under CGS Section 12-407(2)(i). On gross receipts from the sale, rental or leasing of tangible personal property, and rendering of certain business services the tax rate is 6%. On the rental of hotel rooms in a hotel or lodging house the tax rate is 12%.

The Use Tax is a separate tax which is levied at the applicable Sales Tax rate on the storage, acceptance, consumption or any other use of any tangible personal property or of any service described in this section, within the state (CGS Sec. 12-411).

In general, services are not subject to sales and use taxes unless specifically enumerated as taxable by statute. Charges for the following commonly used services are taxable (except when rendered by an employee for his or her employer).

Sales of Taxable Services - Taxable services include, but are not limited to (CGS Sec 12-407(2)):

- Advertising or public relations services not related to the development of media advertising or cooperative direct mail advertising;
- Business analysis, management, management consulting and public relations services, excluding any environmental consulting services;
- Cable and satellite television services;
- Computer and data processing services, including but not limited to, charges for on-line access to computer services and Internet access (but excluding services rendered in connection with the creation, development, hosting or maintenance of all or part of a web site on the World Wide Web); (The tax on computer and data processing services is eliminated as of July 1, 2002.)
- Contractor services;
- Credit information and reporting;
- Employment agencies and agencies providing personnel services;
- Exterminating services;
- Flight instruction and chartering by a certificated air carrier;
- Furniture reupholstering and repair services;
- Janitorial services (including the cleaning of homes, offices and commercial property);
- Landscaping and horticulture services;
- Lobbying or consulting services for the purpose of representing a client's interests in relation to the functions of any Connecticut state or local governmental body;
- Locksmith services;
- Maintenance services;
- Miscellaneous personal services, exclusive of services rendered by licensed massage therapists and licensed electrologists;
- Motor vehicle repairs, including any type of repair, painting or replacement to the body or operating parts of a motor vehicle;
- Painting and lettering services;

- Parking services, other than metered space, in a lot with 30 or more spaces, excluding valet parking at airports and space in certain municipal or state owned or operated railroad parking lots;
- Photographic studio services;
- Piped-in music provided to business or professional establishments;
- Private investigation, protection, patrol work, watchman and armored car services, exclusive of these services provided by off-duty police officers and firefighters;
- Radio or television repair services;
- Repair services to electrical or electronic devices, including, but not limited to, air conditioning and refrigeration equipment;
- Repair or maintenance services to tangible personal property (other than services to vessels and shoe repair);
- Sales agent services for selling tangible personal property, except for the services of a consignee selling works of art or clothing or the services of an auctioneer;
- Services to industrial, commercial and income-producing real property, including but not limited to management, repair and renovation services, but excluding voluntary evaluation, prevention, treatment, containment or removal of hazardous waste or other contaminants of air, water or soil;
- Stenographic services;
- Storage or mooring of any noncommercial vessel on land or in the water, except the non-seasonal (November 1 through April 30) dry or wet storage or mooring of noncommercial vessels;
- Swimming pool cleaning and maintenance services;
- Telecommunications services;
- Telephone answering services;
- Warranty and service contracts for any item of tangible personal property;
- Window cleaning services.

Exemptions - The following six sections list exemptions and exclusions to the Sales and Use Tax.

A. Consumer Goods Exemptions -

Food -

- Sales of food products for human consumption. CGS Sec. 12-412(13)
- Items purchased with federal food stamp coupons. . CGS Sec. 12-412(57) and 12-412e.
- Meals delivered to homes of persons who are elderly, disabled or otherwise confined. CGS Sec. 12-412(46).

Medical -

- Oxygen, blood plasma, prostheses, custom-made wigs or hairpieces, hearing aids, crutches, walkers and wheel chairs, vital life support equipment, apnea monitors, inclined stairway chairlifts and related repair services, equipment used as a reading aid by persons visually impaired, canes, and support hose specially designed to aid circulation. CGS Sec. 12-412(19).
- Prescription medicines, syringes and needles. CGS Sec. 12-412(4).
- Nonprescription drugs and medicines. CGS Sec. 12-412(48).
- Disposable pads used for incontinence. CGS Sec. 12-412(53).
- Test strips and tablets, lancets and glucose monitoring equipment used in care of diabetes. CGS Sec. 12-412(54).
- Telephone equipment designed exclusively for deaf or blind persons. CGS Sec. 12-412(38).
- Equipment for persons with physical disabilities installed in motor vehicles. CGS Sec. 12-412(80).
- Sales of eligible benefits under Title XVII or XIX of Social Security Act or CHAMPUS. CGS Sec 12-412(87).
- Smoking cessation products. CGS Sec. 12-412(111).

Clothing -

- Articles of clothing or footwear costing under seventy-five dollars. CGS Sec. 12-412(47).
- Cloth or fabric purchased for noncommercial sewing. CGS Sec. 12-412(52).
- Yarn. Any sale of yarn for noncommercial use made of natural or synthetic fibers. CGS Sec. 12-412(97).
- Sales Tax 'free week' on items of clothing and footwear under \$300. CGS Sec. 12-407d.

Utilities -

- Fuel for heating purposes. Sales of fuel used for heating purposes (i) in any residential dwelling or (ii) in any building, location or premise utilized directly in agricultural production, fabrication of a finished product to be sold or an industrial manufacturing plant, provided the exemption under this subdivision (ii) shall only be allowed with respect to a building, location or premise in which not less than seventy-five percent of the fuel used in such building, location or premise is used for the purpose of such production, fabrication or manufacturing. CGS Sec. 12-412(16) and 12-412h.
- Certain utilities sales. Sales or service of gas, water, electricity sold to residential customers (including bottled gas for heating purposes); sales of heating oil to non-residential customers in which manufacturing or agricultural production accounts for at least 75% of consumption; the first \$150 of monthly electrical consumption is exempt. CGS Sec. 12-412(3) and 12-412h.
- Private Water Company Purchases. Municipal water companies are exempt from the Sales Tax. CGS Sec. 12-412(90).

Other Consumer Good Exemptions -

- Motor vehicle fuel. CGS Sec. 12-412(15).
- Fuel for use in certain high-occupancy commuter vehicles. CGS Sec. 12-412 (37).
- Newspapers and magazines. (A) Sales of magazines, including publications which only contain puzzles, by subscription; (B) sales of newspapers. CGS Sec. 12-412(6).
- One cent vending machines. Vending machine sales of food products. Items sold through vending machines costing fifty cents or less. CGS Sec. 12-412(27).
- Property purchased from the United States. CGS Sec. 12-413(2).
- Purchase brought into state by resident when the purchase price is \$25 or less. CGS Sec. 12-413(3).
- Personal property used in burial or caskets used in cremation for any single funeral. CGS Sec. 12-412(55).
- Vegetable seeds. Sales of vegetable seeds suitable for planting to produce food for human consumption. CGS Sec. 12-412(96)
- Firearm Safety Devices. Sales of and the storage, use or other consumption of firearm safety devices. For purposes of this subdivision, "firearm safety devices" shall include safes, lock boxes, trigger and barrel locks and other items designed to enhance home firearm safety. CGS Sec. 12-412(101)
- Bicycle Helmets. CGS Sec. 12-412(102)
- Campground rentals (does not appear in statutory language)
- Lodging. (a) Privately owned and operated convalescent homes, residential care homes, homes for the infirm, indigent or chronically ill; (b) religious or charitable homes for the aged, infirm, indigent or chronically ill; (c) privately owned and operated summer camps for children; (d) summer camps for children operated by religious or charitable organizations; (e) lodging accommodations at educational institutions; or (f) lodging accommodations at any facility operated by and in the name of any nonprofit charitable organization, provided the income from such lodging accommodations at such facility is not subject to federal income tax. CGS Sec. 12-407(17).
- Child car seats. CGS Sec. 12-412(108).
- College textbooks. CGS Sec. 12-412(109).
- Sales of passenger motor vehicles with an estimated highway gasoline mileage of 50 MPG or more prior to July 1, 2002. CGS Sec. 12-412(110).

B. Business and Agricultural Exemptions -

Machinery and Materials -

- Machinery used in manufacturing. Sales of and the storage, use or other consumption of machinery used directly in a manufacturing production process. CGS Sec. 12-412(34).
- Component parts for assembly of manufacturing machinery. The sale of any part of a machine purchased exclusively for the purpose of assembling a machine for use directly in a manufacturing production process. CGS Sec. 12-412(73).
- Production materials. Sales of and the storage or use of materials, rope, fishing nets, tools and fuel or any substitute therefor, which become an ingredient or component part of tangible personal property to be sold or which are used directly in the fishing industry or in an industrial plant in the actual fabrication of the finished product to be sold. Sales of and the storage or use of materials, tools and fuel or any substitute therefor, when such products are used directly in the furnishing of power to an industrial manufacturing plant or in the furnishing of gas, water, steam or electricity when delivered to consumers through mains, lines or pipes. CGS Sec. 12-412(18).
- Partial exemption equal to 50% for materials, tools, fuels, machinery and equipment used in manufacturing. CGS Sec. 12-412i.
- Replacement parts in enterprise zones. Sales of any replacement parts for machinery to any business entity located in any enterprise zone designated pursuant to section 32-70 for use within such zone. CGS Sec. 12-412(43).
- Items sold for use in agricultural production by a farmer engaged in such production as a business. CGS Sec. 12-412(63).
- Commercial fishing vessels and machinery or equipment used exclusively in commercial fishing and any machinery or equipment for use on a commercial fishing vessel. CGS Sec. 12-412(40).

Aircraft -

- Flyable aircraft. Sales of and the storage, use or other consumption, by a manufacturer of aircraft located in this state, of flyable aircraft complete with necessary equipment and modifications, but not separate engines and parts thereof, sold to persons taking delivery and using such aircraft as certificated or licensed carriers of persons or property in interstate or foreign commerce under authority of the laws of the United States or any foreign government, or sold to any foreign government for use by such government outside of this state. or sold to persons who are not residents of this state and who will not use such aircraft in this state otherwise than in the removal of such aircraft from this state. CGS Sec. 12-412(20).
- Aircraft repair or replacement parts. Sales of and the storage, use or other consumption of repair or replacement parts exclusively for use (A) (i) in aircraft owned or leased by a certificated air carrier or (ii) in aircraft having a maximum certificated takeoff weight of six thousand pounds or more or (B) in the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412(76).
- Aircraft repair services. Sales of aircraft repair services when such services are rendered in connection with (A) (i) aircraft owned or leased by a certificated air carrier or (ii) aircraft having a maximum certificated takeoff weight of six thousand pounds or more or (B) the significant overhauling or rebuilding of aircraft or aircraft parts or components on a factory basis. CGS Sec. 12-412(77).
- Materials, tools, fuel, machinery and equipment in an aircraft manufacturing facility. On or after July 1, 1993, sales of and the storage, use or other consumption by an aircraft manufacturer operating an aircraft manufacturing facility in this state of materials, tools, fuel, machinery and equipment used in such facility. CGS Sec. 12-412 (78).
- Certain aircraft. Sales of and the storage, use or other consumption of, aircraft having a maximum certificated takeoff weight of six thousand pounds or more. "Certificated takeoff weight" means the maximum such weight contained in the type certificate or airworthiness certificate. CGS Sec 12-412(99).

Motor Vehicles -

- Commercial trucks, truck tractors, tractors and semitrailers and vehicles used in combination which (i) have a gross vehicle weight rating in excess of twenty-six thousand pounds or (ii) are

operated actively and exclusively during the period commencing upon its purchase and ending one year after the date of purchase for the carriage of interstate freight pursuant to a certificate or permit issued by the Interstate Commerce Commission or its successor agency. CGS Sec. 12-412(70).

- Sales of commercial motor vehicles where seventy-five per cent of day-in-service revenue derives from trips involving other states. CGS Sec. 12-412(82).
- Sales of motorbuses where seventy-five per cent of day-in-service revenues derives from trips involving other states. CGS Sec. 12-412(83).
- New motor vehicles exclusively powered by clean alternative fuel or electricity. CGS Sec. 12-412(67).

Fuel -

- Aviation fuel used exclusively and directly in the experimental testing of any product. CGS Sec. 12-412(59).
- Aviation fuel used exclusively for aviation purposes. CGS Sec. 12-412(75).
- Marine fuel. Sales and the storage, use or other consumption of bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil for use in any vessel having a displacement exceeding four thousand dead weight tons or for use in any vessel primarily engaged in interstate commerce. CGS Sec. 12-412(79).
- Conversion equipment associated with converting vehicles to exclusive use of clean alternative fuel or dual use of such fuel and any other fuel. CGS Sec. 12-412(68).
- Equipment associated with compressed natural gas filling stations. CGS Sec. 12-412(69).
- Fuel Used in Portable Power Systems. Sales of, and the storage, use or other consumption of, diesel fuel to be used exclusively in portable power system generators that are larger than one hundred fifty kilowatts. CGS Sec. 12-412(112).

Other Business Purchases -

- Commodities in the form traded on boards of trade and not converted to use by purchaser. CGS Sec. 12-412(30).
- Containers. Description: (A) Non-returnable containers and returnable dairy product containers when sold without the contents to persons who place the contents in the container and sell the contents together with the container; (B) containers when sold with the contents if the sales price of the contents is not required to be included in the measure of the taxes imposed by this chapter; (C) returnable containers when sold with the contents in connection with a retail sale of the contents or when resold for refilling. As used herein, "returnable containers" means containers of a kind customarily returned by the buyer of the contents for reuse, but does not mean non-refillable beverage containers, as defined in subsection (10) of section 22a-243. All other containers are "non-returnable containers". Nothing in this subsection shall be construed so as to tax the gross receipts from the sale of or the storage, use or other consumption in this state of bags in which feed for livestock and poultry, as defined in subsection (12) is customarily contained. CGS Sec. 12-412(14).
- Printed material manufactured for purchaser in Connecticut to be delivered for use outside the state. CGS Sec. 12-412(31).
- Machinery, equipment, tools, materials and supplies used by a commercial printer or publisher. CGS Sec. 12-412(71).
- Machinery, equipment, tools, materials and supplies for typesetting, color separation, finished copy, or similar products to be sold for use in the production of printed materials. CGS Sec. 12-412(72).
- Sales of and the storage, use or other consumption of tangible personal property acquired for incorporation into or used and consumed in the operation of facilities for the treatment of industrial waste before the discharge thereof into any waters of the state or into any sewerage system emptying into such waters, the primary purpose of which is the reduction, control or elimination of pollution of such waters, certified as approved for such purpose by the Commissioner of Environmental Protection. CGS Sec. 12-412(21).
- Sales of and the storage, use or other consumption of tangible personal property or supplies acquired for incorporation into or used and consumed in the operation of facilities, the primary

- purpose of which is the reduction, control or elimination of air pollution, certified as approved for such purpose by the Commissioner of Environmental Protection. CGS Sec. 12-412(22).
- Certain motion picture, video, television and radio production and broadcast equipment. CGS Sec. 12-412(44).
 - Lease or rental of any motion picture film for display by theater owner or operator. CGS Sec. 12-412(50).
 - Motion Picture Leasing or Rental. The leasing or rental of any motion picture film by the owner or operator of a motion picture theater for purposes of display at such theater shall not constitute a sale within the meaning of this subsection. CGS Sec. 12-407(2)(j).
 - Computer-related cleaning equipment used directly in the production and cleaning of computer discs. CGS Sec. 12-412(64).
 - Molds, dies, patterns and sand handling equipment purchased and sold by metal casting foundries. CGS Sec. 12-412(65).
 - Molds, dies, patterns sold by pattern shops to metal casting foundries or their customers and purchase and use of these items by pattern shops. CGS Sec. 12-412(66).
 - Sales of and the storage, use or other consumption of machinery, equipment, tools and materials used exclusively in the fabrication of optical lenses. CGS Sec. 12-412(81).
 - Any item of clothing or protective equipment worn by an employee for protection during the course of the employee's employment. CGS Sec. 12-412(91).
 - Sales of and the storage, use or other consumption of machinery, equipment, tools and materials used exclusively in the commercial processing of photographic film and paper. CGS Sec. 12-412(88).
 - Machinery, equipment, tools, materials, supplies and fuel used in the biotechnology industry. CGS Sec. 12-412(89).
 - The sales and use of any services or tangible personal property to be incorporated into or used or otherwise consumed in the operation of any project of the Connecticut Resource Recovery Authority established pursuant to section 22a-261 whether such purchases are made directly by the authority or are reimbursed by the authority to the lessee or operator of such project. CGS Sec. 12-412(92).
 - Sales of tangible personal property or services to any tourism district, as defined in section 32-302. CGS Sec. 12-412(93).
 - Services or tangible personal property used or consumed in operating solid waste-to-energy facilities. CGS Sec. 12-412(95).
 - Sales of and the storage, use or other consumption of railroad locomotives, track ballast, ties, rails, machinery and equipment used to maintain the railroad right-of-way which is used or operated exclusively for the carriage of freight. CGS Sec. 12-412(103).
 - Fulfillment companies are exempt from any requirement to collect and sales tax on items it stores for an unaffiliated out-of-state retailer. CGS Sec. 12-407(15)(C) and 12-407c.
 - Sales of equipment to a telecom company or CATV company that is used to provide high speed data transmission or broadband internet services. CGS Sec. 12-412(112).
 - Machinery, equipment, tools, materials and fuel when used by a fuel cell manufacturing facility PA 01-6 JSS Sec 18.

C. Service Exemptions -

- Sales of services used to determine the probable consequences in relation to human health of the consumption or other use of any product, substance or element. CGS Sec. 12-412(41).
- Motor vehicle driving service performed out of state CGS Sec. 12-412(36).
- Services related to personnel, management or research when company rendering service and recipient are participating in a joint venture for purposes of research and new product development. CGS Sec. 12-412(58).
- Services rendered between parent companies and wholly-owned subsidiaries. CGS Sec. 12-412(62) and 12-412f.
- Computer and data processing services (eliminated 7/1/01). CGS Section 12-408(1)(C) and 12-411(1)(E).
- Certain sales of computer and data processing services. Certain sales of computer and data processing services. (A) Sales of computer and data processing services rendered to a customer

- (i) by a retailer which, on or after July 1, 1991, acquired the operations of a data processing facility from the customer, provided such customer operated the facility for its own use or (ii) by a retailer which, on or after July 1, 1993, acquired the operations of the data processing facility from the retailer described in subparagraph (A)(i) of this subsection, provided such customer formerly operated the facility for its own use. (B) Sales of computer and data processing services rendered to a customer by a retailer which, on or after July 1, 1995, acquired the data processing operations from the customer, provided such customer formerly conducted such data processing operations for its own use. Sales of and the storage, use or other consumption of computers or data processing equipment, when sold to the retailer described in this subparagraph and used by such retailer to provide the services described in this subparagraph. The provisions in this subparagraph shall not apply if the retailer is a related person, as defined in section 12-217w, with respect to the customer or the customer is a related person, as defined therein, with respect to the retailer. CGS Sec. 12-412(74).
- Landscaping, horticulture, window cleaning or maintenance services rendered to certain disabled persons. CGS Sec. 12-412 (85).
 - Sales of shoe repair services. CGS Sec. 12-412(105).
 - Calibration Services and ISO Services. Sales, use or other consumption of (A) calibration services for machinery, equipment or instrumentation used in a manufacturing production process; or (B) other sales, use or other consumption of services or compliance practices associated with registration and compliance of quality management and quality assurance standards as part of standards created by the International Organization of Standards. CGS Sec. 12-412(104).
 - "Call Before You Dig" Services. CGS Sec. 12-412(106).
 - Sales of repair or maintenance or labor services on vessels. CGS Sec. 12-408(1)(D) and 12-411(1)(D).
 - Renovation and Repair for Residential Real Property. Sales of renovation and repair services of paving of any sort, painting or staining, wallpapering, roofing, siding and exterior sheet metal work other than industrial, commercial or income producing real property. CGS Sec. 12-408(F) and 12-411(G).
 - Patient Care Services. The tax rate on patient care services is 5 3/4% effective with retail sales occurring on or after 7/1/99. CGS Sec. 12-407(2)(FF), 12-408(1)(F), and 12-411(1)(E). PA 01-6 JSS suspends the tax from 7/1/01 to 6/30/03.
 - Payments for the services of leased employees or professional contract employees. Payments for the services of leased employees or professional contract employees are excluded from the definition of "sales price" and "gross receipts" for retailers who have contracted to manage a service recipient's property or business premises. CGS Secs. 12-407(8) and 12-407(9).
 - Motor vehicle parking. Motor vehicle parking in metered space in a lot having thirty or more spaces, and (i) space in a seasonal parking lot provided by a person who is exempt from taxation under this chapter pursuant to subsection (1), (5) or (8) of section 12-412, (ii) space in a parking lot owned or leased under the terms of a lease of not less than ten years' duration and operated by an employer for the exclusive use of its employees, (iii) valet parking provided at any airport, and (iv) space in municipally or state owned or operated railroad parking facilities in municipalities located within an area of the state designated as a severe non-attainment area for ozone under the federal Clean Air Act. CGS Sec. 12-407(2)(i)(N).
 - Car-washes (does not appear in statutory language)
 - Amusement and recreation services (does not appear in statutory language)
 - Health and athletic club services (does not appear in statutory language)
 - Licensed massage therapist and electrologist services. CGS Sec. 12-407(2)(i)(CC). PA 01-109 changed term used from hyertricholoist to electrologist.
 - Services of the agent of any person in relation to the sale of any item of tangible personal property for such person, exclusive of the services of a consignee selling works of art, as defined in subsection (b) of section 12-376c, or articles of clothing or footwear intended to be worn on or about the human body other than (i) any special clothing or footwear primarily designed for athletic activity or protective use and which is not normally worn except when used for the athletic activity or protective use for which it was designed and (ii) jewelry, handbags, luggage, umbrellas, wallets, watches and similar items carried on or about the human body but not worn

on the body in the manner characteristic of clothing intended for exemption under subdivision (47) of section 12-412, under consignment, exclusive of services provided by an auctioneer. CGS Sec. 12-407(2)(i)(S).

- Advertising agency services, advertising time and space in all media, and cooperative direct mail advertising. CGS Sec. 12-407(2)(i)(U).
- Tax preparation services (does not appear in statutory language).
- Winter boat storage. Dry or wet storage or mooring of noncommercial vessels during the period commencing on the first day of November in any year to and including the thirtieth day of April of the next succeeding year. CGS Sec. 12-407(2)(m).
- Hazardous waste removal services. Services rendered in the voluntary evaluation, prevention, treatment, containment or removal of hazardous waste, or other contaminants of air, water or soil. CGS Sec. 12-407(2)(i)(I).
- Environmental consulting services. CGS Sec. 12-407(2)(i)(J).
- Police and Firefighters. Services provided by off-duty police officers and fire fighters. CGS Sec. 12-407(2)(i)(D).
- World Wide Web services rendered in connection with the creation, development hosting or maintenance of all or part of a web site which is part of the graphical, hypertext portion of the Internet, commonly referred to as the World-Wide Web. CGS Sec. 12-407(2)(i)(A).
- Training Services. Any training services provided by an institution of higher education licensed or accredited by the Board of Governors of Higher Education pursuant to section 10a-34. CGS Sec. 12-407(2)(i)(J)(ii).
- Pilot program for a credit against the Sale and Use Tax for purchases of computer equipment to be used in electronic commerce for business making qualified investments in higher education institution for electronic commerce. The credit is capped at \$4.0 million. CGS Sec. 12-413b.

D. Non-Profit Organization Exemptions -

Government -

- Sales of tangible personal property or services to the United States. CGS Sec. 12-412(1).
- Sales of tangible personal property or services which this state is prohibited from taxing under the constitution or laws of the United States. CGS Sec. 12-412(2).
- Sales to the state, political subdivisions and NFL stadium. CGS Sec. 12-412(1).
- Sales of municipal publications, sales by public libraries or by municipal auction and book sales by library support groups. CGS Sec. 12-412(24).
- Sales of tangible personal property and services to The University of Connecticut Educational Properties, Incorporated CGS Sec. 12-412(84).
- Children's Hospital and the John Dempsey Hospital of the University of Connecticut and any short-term acute care hospital. CGS Sec. 12-407(28).

Charitable Organization Exemptions -

Sales to Nonprofit Organizations -

- Personal property and services used or consumed in development, construction, rehabilitation, renovation, repair or operation of housing facilities for low and moderate income families and persons. CGS Sec. 12-412(29).
- Charitable and religious organization. Organizations exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986, as determined by the U.S. Treasury Department. CGS Sec. 12-412(8).
- Nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged. Sales of tangible personal property or services to and by nonprofit charitable hospitals in this state, nonprofit nursing homes, nonprofit rest homes and nonprofit homes for the aged licensed by the state pursuant to chapter 368v for the exclusive purposes of such institutions except any such service transaction as described in subparagraph (GG) of subdivision (i) of subsection (2) of section 12-407. CGS Sec. 12-412(5).

- Centers of service for elderly persons. Sales of tangible personal property or services to any center of service for elderly persons as described in subdivision (d) of section 17b-425. CGS Sec. 12-412(35).
- Services used or consumed in the development, construction, rehabilitation, renovation or repair of housing facilities for low and moderate income families in Qualified Census Tracts or Difficult Development Areas. CGS Sec. 12-412(100).

Sales by Nonprofit Organizations -

- Nonprofit charitable hospitals, nursing homes, rest homes and homes for the aged. CGS Sec. 12-412(5).
- Items not costing more than twenty dollars each by certain nonprofit organizations and schools. CGS Sec. 12-412(26).
- Sales of items for not more than one hundred dollars each by nursing or convalescent homes or adult day care centers. CGS Sec. 12-412(56).
- Sales by an affiliate participating in certain community economic development programs. Sales of services by an affiliate participating in implementation of the community economic development program established pursuant to section 8-240k to another affiliate participating in said program. CGS Sec. 12-412(86).
- Sales of tangible personal property by nonprofit organizations at bazaars, fairs, picnics, tag sales or similar events to the extent of five such events of a day's duration held during any calendar year. (CGS Sec. 12-412(94))
- Sales of tangible personal property by historical societies. CGS Sec. 12-412(98).
- Educational institution and certain health and care facility meals. CGS Sec. 12-412(9).
- Property removed from a retailer's inventory and donated to charities or government agencies. CGS Sec. 12-413(4).

E. Miscellaneous Exemptions -

- Sales of United States and Connecticut state flags. CGS Sec. 12-412(23).
- Sales of Gold or silver bullion, legal tender of any nation, rare and antique coins. CGS Sec. 12-412(45).
- A motor vehicle or vessel purchased but not registered in this state by a person who is not a resident of this state. CGS Sec. 12-412(60).
- Property tax payments under motor vehicle leases. CGS Sec. 12-412(49).
- Exemption from use tax for vessels brought into the state exclusively for storage, maintenance or repair. CGS Sec. 12-413a.
- Payment of sales or use tax to another state. (Double taxation may violate the Interstate Commerce Clause of the US Constitution.) CGS Sec. 12-430(5).
- Casual or isolated sales. (DRS regulation) CGS Sec. 12-426 (17).
- The resale of a mobile manufactured home located in a mobile manufactured home park or located on a single family lot or as otherwise permitted by the municipality . 12-412c(b).
- Sale for resale of goods, services and rents. (does not appear in statutory language)
- Out-of-state sales (Does not appear in statutory language. Taxation of out-of-state sales may violate the Interstate Commerce Clause of the US Constitution.)

F. Items subject to a lower Sales Tax Rate or Basis -

- Motor vehicles sold to members of the armed forces (tax rate is 4.5%) CGS Sec. 12-408(1)(B) and 12-411(1)(B).
- Sale of vessels to nonresidents at the lower of CT or resident's home state. CGS Sec. 12-411(1)(C).
- Determination of sales tax on certain construction equipment or machinery when such equipment or machinery is traded in on purchase. CGS Sec. 12-430a.
- Trade-in of motor vehicles, snowmobiles, vessels or farm tractors. CGS Sec. 12-430(4).
- Coupons and Discounts and Battery Deposits and Trade Ins of like kind. CGS Secs. 12-407(8) and 12-407(9).
- Trade in of Core Parts CGS Sec. 12-412j.
- Licensed motor vehicle dealers. CGS Sec. 12-430(6)

Payment - Taxes are due and payable on or before the last day of the month for sales during the previous month except in the case where the taxpayer qualifies for quarterly payments. Quarterly payments are due on or before the last day of the month following the quarterly period. To qualify for quarterly payments, a taxpayer's total tax liability for the 12-month period ended on the preceding September 30 must be less than \$4,000 (CGS Sec. 12-414). The Commissioner of Revenue Services, in cases of seasonal or occasional sellers whose gross receipts do not exceed \$500, may permit or require returns for other than monthly or quarterly periods (i.e. annual returns to be filed one month after the end of the calendar year covered by such return).

The interest rate on overdue or underpayment of the Sales Tax is 1% per month or 12% per year (CGS 12-419).

CORPORATION BUSINESS TAX (CGS Section 12-213)

A tax is imposed on corporations for the privilege of carrying on business within the State or owning or leasing property or maintaining an office within the state.

Computation of Tax

Corporations are subject to tax on income derived from in-state sources.

Rate & Basis - The Corporation Business Tax consists of three components. The taxpayer's liability is the greatest amount computed under any of the three components. The three bases for most corporations are:

1. **Net Income Base:** This component is a tax measured by the net income of a taxpayer. Net income means federal income less certain deductions as those allowed under the Internal Revenue Service Code of 1986 as amended from time to time. The tax rate on net income is 7.5% for income years beginning on or after January 1, 2000 (CGS Sec 12-214(a)(1)).

A Corporation taxable solely within the state multiplies its entire net income by the tax rate. Business income when derived from the manufacture, sale or use of tangible personal property is apportioned by a three factor formula that compares sales, payroll and tangible property in Connecticut to those factors from business carried on everywhere else. The sales factor is given a double weight. Motor Carriers which transport property for hire apportion net income based on the relative number of miles driven in state. The apportioned net income is then multiplied by the tax rate.

Business income derived from services is apportioned based on a single gross receipts factor which compares gross receipts from businesses carried on within Connecticut to the nation.

Companies providing management, distribution, or administrative services to or on behalf of a regulated investment company (mutual fund) or a securities brokerage firm have the option to base their tax liability on the proportion of shares in the fund owned by shareholders domiciled in Connecticut, and in the case of securities brokerage service companies to base their tax liability on the proportion of commissions and margin interest paid to accounts owned by clients domiciled in Connecticut. If the corporation is a manufacturer or a broadcaster, it is allowed to use a single factor formula to apportion their income for corporate income tax purposes. Manufacturers cannot apply the new formula to their first and second estimated payments in 2001. (CGS Sec. 12-218)

If the corporation is a bank which issues credit cards and regularly engages in credit card activities, the tax liability on net income derived from credit card activities is based on the proportion of receipts derived from credit card holders located within Connecticut. (CGS Sec. 12-218b)

2. **Capital Base:** The capital base tax is .0031 or 3 1/10 mills per dollar of the average value of capital stock and surplus reserves (CGS Sec. 12-219). For income years beginning on or after January 1, 1999, financial service companies are excluded from the capital base and minimum tax. Corporations doing business in more than one state must use a two factor formula which measures the average monthly value of intangible and tangible assets located in Connecticut as compared to the nation to apportion their asset base (CGS 12-219a&b). The maximum tax liability under this base is \$1 million.
3. **Minimum Tax:** If a corporation owes less than \$250 under both the net income and capital base methods, it pays the minimum tax of \$250. (CGS 12-219, 12-223c)

Combined Returns: Corporations filing combined returns are not be entitled to the first \$25,000 of tax savings over what they would have paid if they filed separately (CGS 12-223f).

Limited Liability Corporations

PA 93-267 created a new form of business that combines the limited liability characteristics of corporations with the tax status of partnerships, effective October 1, 1993. The Internal Revenue Service (IRS) has indicated that limited liability companies (LLC) that possess certain characteristics would be treated as partnerships for federal tax purposes. Based upon determination by the IRS that an entity is an LLC, it would be exempt from the corporate business tax. The test whether a business organization is an LLC or a corporation is the same test the IRS uses to distinguish partnerships from corporations. The IRS will not treat a business organization that has associates and a profit motive as a corporation if it has at least three of the following corporate characteristics: limited liability, continuity of life, free transferability of interest, and centralization of management.

PA 97-70 authorized single-member limited liability companies and allows an assignee of a single-member LLC to become a member if and to the extent the member gives him this right.

Subchapter S Corporations

Subchapter S-corporations are exempt from the tax. (CGS 12-217(c))

Unrelated Business Income Tax (Nonprofit Corporations)

Nonprofit corporations with income from businesses unrelated to their nonprofit status are subject to tax on income derived from in-state sources at the same rate as the tax on the net income of regular corporations. All business income is apportioned by a three factor formula which compares sales, compensation and tangible property in Connecticut to sales, compensation, and tangible property both inside and outside of Connecticut.

Exemptions - The following are exempt:

- Railroads and certain other companies that pay other taxes in lieu of the corporation tax. (CGS Sec. 12-214).
- Companies exempt by the federal corporation net income tax law (CGS Sec. 12-214).
- Cooperative housing corporations (CGS Sec. 12-214).
- Electric cooperatives (CGS Sec. 33-240).
- Political parties
- International banking facilities as defined in federal regulations
- Aero-derived gas turbine systems
- Unpaid loss reserve adjustments for non-life insurance companies
- Regulated investment companies and real estate investment trusts (REITs), effective for the 1993 income year
- Cooperative housing corporations, effective for the 1990 income year
- Subchapter S-Corporations effective 1/1/2001
- Domestic insurance companies effective 1/1/1999.
- Passive Investment Companies
- Limited Liability Companies (LLC)
- Capital Gains from the sale of land to be preserved as open space or watershed land

Credits - The following credits are available to taxpayers:

- Apprenticeship Training A corporation that hires apprentices in the manufacturing or plastics trades may apply for a credit of up to \$4,800 per apprenticeship. The amount of the credit is limited to the lesser of 50% of the actual wages paid or the total number of work hours during the year multiplied by \$4.00, or \$4,800, whichever is less. Public Act 97-295 expands this credit to allow corporations which hire apprentices in the construction trades to apply for a credit of up to \$1,000 per apprenticeship. The amount of the credit is limited to the lesser of 50% of the actual wages paid or

\$1,000, or the total number of work hours during the year multiplied by \$2.00, whichever is least. (CGS Sec. 12-217g)

- Clean Alternative Fuels The Clean Alternative Fuels credit enables a business to claim credits of 10% or 50% of its expenditures on vehicles, equipment and filling stations which enable use of clean alternative fuel. Unused credit may be carried forward for three years. A 10% credit is allowed for the incremental cost of purchasing vehicles exclusively powered by clean alternative fuels. A 50% credit is available for the expenses of equipment used in a compressed natural gas, liquefied petroleum gas or liquefied natural gas filling or electric recharging station and the purchase of equipment needed to convert a vehicle to clean alternative fuel. The credit also applies to amounts spent directly on the construction of any filling station or improvements to any existing filling station in order to provide compressed natural gas, liquefied petroleum gas or liquefied natural gas. (CGS Sec. 12-217i)
- Connecticut Insurance Reinvestment Fund A credit may be applied against the corporation business tax for investments made through a registered fund manager. These investments must be specifically earmarked for insurance businesses incorporated in Connecticut. The credit is 10% of amounts invested on or after January 1, 1994, beginning 3 years but not later than 7 years from the date of investment. For years 7 through 10, the credit increases to 20% of the invested amounts. Unused credits may be carried forward for five succeeding income years. Managers of eligible funds must have registered with the Commissioner of Economic and Community Development by July 1, 2000 in order for their investors to be able to claim the credit. No further credits will be allowed for investments in funds created on or after July 1, 2000. PA01-6 JSS sunsets the credit for investments made after December 31, 2015. It also modified the credit in a manner that the recapture of tax credits would occur when there is a reduction in state employment levels and not when there is a decrease in the percentage of total workforce in this state due to an increase in out-of-state workforce. (CGS Sec 38a-88a(j))
- Displaced Workers Hired By Electric Suppliers Electric suppliers who hire workers displaced by the restructuring of the electric industry may claim a credit of \$1,500 for each displaced worker employed at least 6 months. The credit is effective for income years beginning on or after January 1, 1999. (CGS Sec. 12-217bb)
- Electronic Data Processing Equipment The Electronic Data Processing Equipment Property Tax credit provides a 100% credit for property tax owed and paid on electronic data processing equipment. Unused credits may be carried forward for five succeeding income years. (CGS Sec. 12-217t)
- Employer Assisted Housing This credit is available for monies paid to a revolving loan fund for employer assisted housing. This fund must be established and maintained by the corporation for 5 years and provide revolving loans to its low and moderate income employees. The program is administered by the Connecticut Housing Finance Authority and is capped at \$1 million per year. The credit is limited to \$100,000 annually per business firm and may be carried back or forward for five years. (CGS Sec. 12-217p)
- Enterprise Zone or Entertainment District The Enterprise Zone or Entertainment District Credit allows a business credit of 50% of their allocable tax for operating a manufacturing facility within a designated enterprise zone or entertainment district. Certification is required from the Department of Economic and Community Development. Corporations may claim this credit for 10 years beginning with the first year following the year of certification. (CGS Sec. 12-217e)
- Enterprise Zone Credit For Qualifying Corporations A credit of 100% is allowed to any qualifying corporation created on or after January 1, 1997 which hires local employees qualifying under the Job Training Partnership Act to work within a designated Enterprise Zone. This credit is 100% of the corporation's tax liability for its first three years and 50% of its liability for the next seven. (CGS Sec. 12-217v)
- Financial Institutions This credit is available to financial institutions which construct a new facility and create a minimum of 1,200 new jobs. Each company must obtain an eligibility certificate from the Department of Economic and Community Development in order to claim this credit. Credit levels of 30%, 40% or 50% for years one through ten provided it has not received any financial assistance from the state and 25% for years eleven through fifteen, are based on the number of qualified employees. This credit may be taken for up to fifteen years. PA 00-170 provides financial institution with Manufacturing Assistance Act benefits. (CGS Sec. 12-217u)

- Fixed Capital Investments This credit is available to corporations for income years beginning on or after January 1, 1998. The credit is based on the amounts paid or incurred for any new tangible personal property that has a class life of more than four years, is not sold or leased within 12 months, and will be held and used in Connecticut for at least five years. Inventory, land, buildings and mobile transportation equipment are not included. The percentage of credit beginning January 1, 1998 is 3% of the expenditures in 1998, 4% in 1999, and 5% for income years beginning on or after January 1, 2000. Unused credits may be carried forward for five succeeding income years. (CGS Sec. 12-217w)
- Housing Program Contribution This tax credit program enables corporations to contribute to housing programs which benefit low and moderate income individuals and families. These programs are sponsored, developed or managed by nonprofit corporations and must be approved by the Connecticut Housing Finance Authority. The credit is the amount of the contribution, not to exceed \$50,000 per business annually and a total for all firms is capped at \$5 million annually. Unused credits may be carried back to the five preceding income years and forward for five succeeding income years. (CGS Sec. 8-395)
- Human Capital Investments The Human Capital Investments credit is available for income years beginning on or after January 1, 1998. The credit is based on the amounts paid or incurred for various job training and work education programs, child care subsidies to Connecticut employees, day care facility establishment costs and donations to institutions of higher education for improvements to technology. The percentage of credit beginning January 1, 1998 is 3% of the expenditures in 1998, 4% in 1999, and 5% for income years beginning on or after January 1, 2000. Unused credits may be carried forward for five succeeding income years. PA 00-192 created the Individual Development Account to allow certain low-income and qualified disabled taxpayers to open savings accounts and receive matching funds as an incentive for saving for specific purposes. (CGS Sec. 12-217x)
- Machinery and Equipment This credit is based upon the incremental increase in expenditures for machinery and equipment acquired for and installed in Connecticut. The rate of credit is either 5% or 10% depending on the number of full time employees. The credit became effective for income years commencing on or after January 1, 1997, however certain expenditures made during 1995 may qualify for credit in the 1997 income year. (CGS Sec. 12-217o)
- Manufacturing Facility in a Targeted Investment Community A credit of 25% may be applied against the portion of the Corporation Business tax allocable to a manufacturing facility located in a targeted investment community. The Commissioner of Economic and Community Development must certify that the facility is operating in a designated area of high unemployment. The credit period lasts for ten years beginning with the first year following certification. (CGS Sec. 12-217e)
- Neighborhood Assistance Act Program The Connecticut Neighborhood Assistance Act tax credit program is designed to provide funding for municipal and non-profit organizations. Businesses are granted a tax credit for contributing to certain programs approved by the Department of Revenue Services. Depending upon the nature of the program and the individuals served, credit is either 60% or 40% of the amount contributed. Unused credits may be carried back to the two preceding income years. The program has several statutory limits which must be followed. A business is limited to receiving \$75,000 in tax credit annually. A non-profit organization is limited to receiving \$150,000 in contributions in the aggregate. Also, a businesses' total charitable contributions must equal or exceed it's prior year amount. The minimum contribution on which credit can be granted is \$250. The program has a \$5 million cap which if exceeded, results in prorating of approved donations. (CGS Sec. 12-632 and Chapter 228a)
- Opportunity Certificate These certificates issued to recipients of benefits from the temporary family assistance program are used to negotiate for employment opportunities. Hiring companies may redeem these certificates for a corporation business tax credit of \$125.00 for each full month that the qualified worker is employed, with an annual limit of \$1,500 per employee. (CGS Sec. 12-217y)
- Research and Experimental Expenditures This is a tax credit based on the incremental increase in expenditures for research and experiments conducted in Connecticut. The amount of the credit equals 20% of the amount spent by the corporation directly on research and experimental expenditures which exceeds the amount spent in the preceding income year. Qualifying biotechnology companies are allowed a fifteen-year credit carry-forward commencing with the 1997

income year. All other companies are allowed a fifteen-year credit carry-forward commencing with the 2000 income year. (CGS Sec 12-217j)

- Research and Development Expenses A credit may be applied against the Corporation Business Tax for expenses of research and development conducted in Connecticut. The amount allowed as credit increases ratably from 1% of the annual research and development expenses paid or incurred, where such expenses equal \$50 million or less, to 6% where expenses exceed \$200 million. Also, for those taxpayers whose research and development expenses exceed \$200 million, there is a credit reduction provision based on workforce reductions. Unused credits may be carried forward until fully taken. Public Act 98-110 extends the 6% credit to qualified small businesses with a gross income which does not exceed \$100 million for income years beginning on or after January 1, 2000. (CGS Sec. 12-217n)
- Sale of Credits Research and Experimentation Credits and Research and Development Credits may be sold to the state by a business that has no tax liability against which to apply them and if the business grossed less than \$70 million in the previous tax year for a cash payment equal to 65% of the credit's value. (CGS Sec. 12-217ee)
- Research and Development Grants to Institutions of Higher Education This is a credit for 25% of the amount by which a qualifying grant or combination of grants made by a corporation to any institution of higher education in Connecticut for the purposes of research and development related to advancements in technology, exceeds the average amount of qualifying grants made during the three preceding income years. (CGS Sec. 12-217l)
- Service Facility This credit is available to companies with a service facility located in a Connecticut targeted investment community which hire new employees and have an eligibility certificate issued by the Commissioner of Economic and Community Development. The credit is based on the portion of tax allocable to such facility and the number of new employees working there. Credit percentages range from 15% to 50% depending on the number of new employees. The credit period is ten years. (CGS Sec. 12-217e)
- Traffic Reduction Programs This credit which commenced January 1, 1997, is available for corporations employing 100 or more people. This is a 50% credit for traffic reduction program expenses related to the attainment of federal Clean Air Act standards, not to exceed \$250 per participating employee. The credit is capped at \$1.5 million per year. Expenditures made on or after January 1, 1995 are allowed to be claimed in 1997. (CGS Sec. 12-217s)
- Subchapter S Corporations Allow Subchapter S corporations to take tax credits on the same phase out of the tax on S-Corporation's net income (PA 99-173)
- Open Space A credit for donation of land to be preserved as open space or watershed land (PA 99-173 and PA 99-235). PA 00-203 extends the credit for land donated to the state to be carried forward 10 years. It also creates the Charter Oak Open Space Trust Account. (CGS Sec. 12-218dd)
- SBA A credit for the guarantee of fees paid when obtaining financing from the Small Business Administration. (CGS Sec. 12-217cc)
- Donation of Computers to Local Schools A credit for donation of new or used computers to local schools. (CGS Sec. 10-228b)
- Rehabilitation of Historic Homes PA 99-173 established a tax credit for expenses related to rehabilitating historic homes effective with the 2000 income year. The credit applies to expenses over \$15,000 with a cap of \$30,000 for each home. The credit is capped at \$3 million per year and can be carried forward for up to four years. (CGS Sec. 10-320j)
- Remediation of Urban Sites PA 00-170 established a site remediation tax credit for the remediation of urban sites. The amount of credit cannot exceed the amount of state revenue the Department of Economic and Community Development determines will be generated by the investment in the site. The revenue loss from the credit is expected to be offset by the tax revenue generated from the new development at the site. PA 01-9 JSS allows taxpayers investing any amount in eligible environmental remediation and urban sites reinvestment projects through Community Economic Entities (CDEs) to qualify for state business tax credits. (CGS Sec. 32-9t)

Payment - If the tax liability is expected to be more than \$1,000, or the tax required to be paid in the preceding year exceeded \$1,000, then the taxpayer is obligated to declare and pay estimated payments. Estimated payments are based on current year estimated annual tax liability using the following percentages: 30% in the third month, 70% in the sixth month, 80% in the ninth month, and 100% by the twelfth month of the income year, or 100% of the prior year's estimated tax payment.

The final payment of the tax is due by the first day of the fourth-month following the end of the income year. The minimum estimated payment is \$100 (CGS Sec. 12-242c).

The interest rate on overdue or underpayment of estimated tax is 1% per month or 12% per year.

INHERITANCE AND ESTATE TAXES

Inheritance, Estate and Generation-Skipping Transfer Taxes

Death taxes (often called succession taxes) are excise taxes levied on the transfer of wealth at the time of death. There are two types of death taxes, an estate tax which is a tax on the total value of an estate, and the inheritance tax which is a levy on the separate shares of an estate passed to beneficiaries.

INHERITANCE TAX (CGS Section 12-340)

The Connecticut Succession Tax was the first tax universally applied to all residents and property owners within the state in 1889. From 1889 to the late 1930s, the tax evolved into its present form. It has not changed greatly from the 1930s.

The succession tax is an inheritance tax that is applied to all real and tangible personal property inherited in the state and all intangible personal property inherited without regard to location. For nonresidents the tax base is all real and tangible personal property located in the state. The tax is a death tax based on the value at the time of death of the net taxable estate distributed to certain classes of beneficiaries.

Classification of Inheritors		
Class	Description	Amount Exempt January 1, 2002
AA	Surviving spouse	Exempt
A	Immediate family such as parents or children	Exempt
B	Other relatives including siblings, nieces, and nephews	\$600,000
C	All others including charitable organizations	\$200,000

PA 01-1 of the November 15, 2001 Special Session delays the phase-out schedule of the tax by postponing the increases in exemption amounts for Class B and Class C by one year.

The net taxable estate consists of the gross value of estate assets less certain allowable deductions. Although the Connecticut inheritance tax is based on the value of the assets distributed to certain classes of beneficiaries, the tax is payable by the decedent's estate.

Farm land in an estate is valued at current use provided that (1) such farm land is transferred to beneficiaries included in classes AA, A and B, (2) such farm land was owned by the deceased or any beneficiaries included in classes AA, A and B for more than 5 years during 8 years immediately preceding the decedent's death, and (3) the deceased or any beneficiaries shall have engaged in active and substantial farming or agricultural operations directly related to such farm for more than 5 years during the 8 years prior to the decedent's death (CGS Sec. 12-349(a)).

The Inheritance Tax is scheduled to be phased out by increasing the exemption amount for each class of inheritor over 5 years as follows (CGS 12-344):

Exemption amount for property inherited by Class A:	Effective date of exemption increase:
Property under \$50,000	Prior to 1/1/97
Property under \$250,000	1/1/97
Property under \$500,000	1/1/98
Property under \$800,000	1/1/99
Property under \$2,000,000	1/1/00
Tax on Class A is eliminated	1/1/01

Exemption amount for property inherited by Class B:	Effective date of exemption increase:
Property under \$6,000	Current law
Property under \$200,000	1/1/99
Property under \$400,000	1/1/00
Property under \$600,000	1/1/01
Property under \$1,500,000	1/1/03 *
Tax on Class B is eliminated	1/1/04 *

Exemption amount for property inherited by Class C:	Effective date of exemption increase:
Property under \$1,000	Current law
Property under \$200,000	1/1/01
Property under \$400,000	1/1/03 *
Property under \$600,000	1/1/04 *
Property under \$1,500,000	1/1/05 *
Tax on Class C is eliminated	1/1/06 *

*November 15, 2001 Special Session HB 7601 (PA not available at time of printing) delays the phase-out schedule of the tax by postponing the increases in exemption amounts for Class B and Class C by one year. The table above reflects the new schedule.

Rate & Basis - The tax is based upon an heir or beneficiary's "privilege" to receive property. The following tax rates are based on the relationship of the beneficiary to the decedent and include the base rates and the 30% and 10% surtaxes:

Inheritance Tax Rates (Including Surtax)						
Net Taxable Estate (\$000) Col 1	Class A		Class B		Class C	
	Tax on Col 1	Rate on Excess Col 1	Tax on Col 1	Rate on Excess Col 1	Tax on Col 1	Rate on Excess Col 1
0 to 1	\$0	0.0%	\$0	0.0%	\$0	0.0%
1 to 6	0	0.0	0	0.0	0	11.4
6 to 20	0	0.0	0	5.7	572	11.4
20 to 25	0	0.0	801	5.7	2,174	11.4
25 to 50	0	0.0	1,087	7.2	2,746	12.9
50 to 100	0	4.3	2,874	7.2	5,963	12.9
100 to 150	2,145	4.3	6,449	7.2	12,398	12.9
150 to 250	4,290	5.7	10,024	8.6	18,833	14.3
250 to 300	10,010	7.2	18,604	10.0	33,133	15.7
300 to 400	13,585	7.2	23,609	10.0	40,998	15.7
400 to 600	20,735	8.6	33,619	11.4	56,728	17.2
600 to 1,000	37,895	10.0	56,499	12.9	91,048	18.6
1,000 and up	77,935	11.4	107,979	14.3	165,408	20.0

In general, the closer the relationship (estate passes from parent to child) the larger the exemption and the lower the tax rate, the further the relationship (estate passes from decedent to a friend) the smaller the exemption and the greater the tax rate.

Exclusions - State exclusions from gross taxable estate

- Payments to Beneficiary from Retirement or Profit-Sharing Plans(CGS Sec. 12-349(b))
- Social Security, Railroad Retirement and Survivor Benefits (CGS Sec. 12-349(c))
- Self-Employed Pension Plan (CGS Sec. 12-349(d))
- Transfers to Government and Other Entities (CGS Sec. 12-347(a))
- Care of Cemetery Lot (CGS Sec. 12-347(a))
- Transfer of Open Space Land (CGS Sec. 12-347(c))
- Life and Accident Risk Insurance (CGS Sec. 12-342)
- Jointly Owned Property (CGS Sec. 12-343)
- Tax Incentive for Open Space(CGS Sec. 12-347(c))

Deductions - In the case of the estate of a resident transferor (CGS Sec. 12-350), the net estate is computed by deducting from the gross taxable estate the following items:

- (a) Debts against the decedent's estate,
- (b) Unpaid taxes on real and personal property and income,
- (c) Any tax on untaxed property assessed by the state,
- (d) Special assessments or liens,
- (e) Funeral expenses, headstone, and care of cemetery lot,
- (f) Reasonable compensation of executors and administrators and reasonable attorney's fees,
- (g) Allowance made during settlement of estate for the support of the widow, widower, dependent minor children or handicapped individuals,
- (h) Unpaid mortgages not deducted in the appraisal of property mortgaged,
- (i) Reasonable expenses of administration relating to intestate estates,
- (j) Unpaid expenses of administering a trust prior to death.

In the case of the estate of a non resident transferor (CGS Sec. 12-352), the net estate is computed by deducting from the gross taxable estate the following items:

- (a) Fees of the Connecticut Probate Court,
- (b) Advertising expenses incidental to administration in this state,
- (c) Reasonable compensation of appraiser of real estate or tangible property located in this State,
- (d) Expenses incurred in procuring fiduciary's bond filed in the Connecticut probate court,
- (e) Commissions paid in connection with sales of real estate or tangible property located in this state,
- (f) Reasonable compensation of executors and administrators of the Connecticut probate court and reasonable fees for Connecticut attorneys,
- (g) Unpaid mortgages upon real and personal property located in Connecticut and not deducted in the appraisal of property mortgaged located in Connecticut,
- (h) Unpaid taxes on real and personal property located in this state,
- (i) Any tax on untaxed property assessed by the state,
- (j) Special assessments or liens on property in Connecticut.

Exemptions - Class AA, A, B, C as described in the beginning of this section (CGS Sec. 12-344) and transfer to the US, any state or territory, or any political subdivision thereof, including the District of Columbia and transfers to any corporation, institution, society, association or trust, formed for charitable, education, literary, scientific, historical or religious purposes. (CGS Sec. 12-347(a))

Payment - Inheritance tax is due at the death of the decedent and payable within six months thereafter (CGS Sec. 12-375). If the value of an interest in a closely held business exceeds 35% of the value of the gross estate, the tax may be paid in ten equal annual installments.

ESTATE TAX (CGS Section 12-391)

Under certain circumstances, Connecticut imposes an estate tax (CGS Sec. 12-391). The tax is intended to preserve revenue for the state that would otherwise go to the federal government and is considered a "sponge tax". The Connecticut estate tax allows the state to retain the maximum credit allowed under federal law. This tax acts as a revenue safety net, used only when the total state death tax liability falls below the maximum federal credit. In cases such as these, the state is able to retain funds that would have gone to the federal government up to the maximum allowable credit. Therefore the state can pick up revenue with no increase in tax liability to the decedent's estate (CGS Sec. 12-391). The Estate Tax is also applicable to real and personal property in Connecticut owned by nonresidents.

Payment – The tax is due at the death of the decedent and payable within nine months (CGS Sec. 12-392).

GENERATION-SKIPPING TRANSFER TAX (CGS Section 12-390a)

A tax is imposed on certain transfers of property under trusts whose beneficiaries are two or more generations below the transferor. Specifically, it applies to taxable terminations under federal Generation Skipping Tax laws that occur on or after July 1, 1997. The amount of the tax is the amount of federal credit allowed for generation skipping transfer tax paid to any state under the IRS Code.

A taxable termination occurs upon the termination of a trust interest (a current right to receive trust income or principal) if, after the termination, all trust interests are held by (1) beneficiaries who are two or more generations below that of the transferor or (2) a trust for the benefit of such people. A taxable distribution is any distribution from a trust or principal to such people or trusts. A direct skip is an outright transfer of a property interest to such people or trusts. Every person is allowed a \$1 million Generation Skipping Tax exemption.

Payment - The tax is due if there is a taxable distribution or termination under the federal law. The person responsible for paying the federal Generation Skipping Tax must pay the state tax by the initial deadline for filing the federal return, regardless of whether that deadline was extended. (Under federal law the trustee pays the tax on a taxable termination. The transferee pays it on a taxable distribution.) In the case of a direct skip, payment is due on the date in which an estate or gift tax payment is required. In all of the cases, the due date is on or before the 15th day of the 4th month after the close of the tax year of the person required to file the return.

GIFT TAX
(CGS Section 12-640)

A tax is imposed on gifts taxable under federal law (certain gifts worth over \$10,000). The tax applies to the transfer of personal and real property situated within the state by residents and nonresidents of Connecticut. This tax is effective for gifts made on or after September 1, 1991 (CGS Sec. 12-640).

Computation of Tax

Gifts by resident and nonresident individual donors are subject to the Connecticut gift tax. Residents are taxed on all gifts of intangible property (such as interest-free and below market interest loans, certain loan guarantees, and dividends) and of real property and tangible personal property situated in Connecticut, provided the donor is required to file a federal Gift Tax Form 709. Nonresidents are taxed on gifts of real and tangible personal property situated in Connecticut and on tangible personal property within Connecticut if employed in carrying on a trade or business in Connecticut, provided the donor is required to file a federal Gift Tax Form 709. The first \$10,000 of gifts to any donee of a present interest in property is excluded from tax. A married couple may not file a joint gift tax return. However, they may elect to have all gifts made to third parties be considered to have been made one-half by each spouse. Thus, the first \$20,000 of gifts made by consenting spouses during the calendar year would not be subject to tax.

Rate & Basis - Gifts which are taxable for federal purposes, certain gifts over \$10,000, are subject to the Gift Tax. Taxable gifts are those which are included in taxable gifts for federal gift tax purposes less federal gift tax deductions. Deductions from the Connecticut Gift Tax are the same as those allowed in Sections 2522 to 2524 of the IRS Code. (CGS Sec. 12-643) The tax rate is as follows:

Amount of Taxable Gifts	Tax Rate
<u>Effective January 1, 2002</u>	
Over \$50,000 but not over \$75,000	\$750, plus 3% of excess over \$50,000
Over \$75,000 but not over \$100,000	\$1,500, plus 4% of excess over \$75,000
Over \$100,000 but not over \$700,000	\$2,500, plus 5% of excess over \$100,000
Over \$700,000	\$32,500, plus 6% of excess over \$700,000
<u>Effective January 1, 2003</u>	
Over \$75,000 but not over \$100,000	\$1,500, plus 4% of excess over \$75,000
Over \$100,000 but not over \$200,000	\$2,500, plus 5% of excess over \$100,000
Over \$700,000	\$32,500, plus 6% of excess over \$700,000

Amount of Taxable Gifts**Tax Rate**Effective January 1, 2004

Over \$100,000 but not over \$200,000	\$2,500, plus 5% of excess over \$100,000
Over \$850,000	\$40,000, plus 6% of excess over \$850,000

Effective January 1, 2005

Over \$950,000	\$45,500, plus 6% of excess over \$950,000
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Effective January 1, 2006 and thereafter

Over \$1,000,000	\$47,500, plus 6% of excess over \$1,000,000
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Exemptions -

- Transfers of tangible personal property and real property located outside of the state are exempt. (CGS Sec. 12-641)
- \$10,000 Annual Exclusion (CGS Sec 12-643, IRS Code Sec. 2503)
- Charitable Transfers and Similar Gifts (CGS Sections 12-644(c)(2) and 12-643, IRS Code Sec 2522)
- Gifts to a Spouse (CGS Sections 12-644(c)(2) and 12-643, IRS Code Sections 2523-2524)
- Gifts under \$1 Million (phased in over 6 years)

Payment - The donor must file a return and pay the tax by April 15 for taxable gifts made in the previous calendar year. If the donor does not pay the tax, the recipient is liable for it. Effective for the 1994 income year, the due date of a return for the year in which a donor dies is the date for filing a federal gift tax return.

What is a transfer by gift? - A gift is a voluntary transfer (in any form or manner) of property (of any kind or nature) by one to another without consideration of compensation therefor. It is a gratuity. The gift tax applies to transfers made as gifts whether the gift is in trust or not, is directly or indirectly made, and regardless of the nature of the property. The gift tax is not imposed upon the receipt of the property by the donee, nor is it conditioned upon ability to identify the donee at the time of transfer. The gift tax is not a tax on property, but is a tax on the transfer of property that constitutes a "gift". (IRS Code Sec 2511)

PUBLIC SERVICE COMPANIES TAX
(CGS Sections 12-249, 12-255a, 12-256, 12-264, and 12-268a)

The tax is imposed on the gross earnings of public service companies.

Computation of Tax

Rate & Basis - The basis for the tax is gross earnings from which the following deductions are made: (1) all sales for resale of steam, gas and electricity to public service corporations and municipal utilities and (2) any federal BTU energy tax. The following companies are taxed at the rates listed (CGS Sec. 12-249, 251, 255, 256, 264, 265):

<u>Public Service Company</u>	<u>Tax Rate</u>	<u>CGS Section</u>
Community Antenna and TV Systems	5.0%	12-258(3)
Gas, Electric & Power	5.0%	12-265(b)
Sale to residential customers of electric power and gas	4.0%	12-265(b)
Telegraph & Cable	4.5%	12-258(2)
Railroad Companies	2-3.5% [1]	12-251(2)
Express Companies	2.0%	12-258(1)

[1] The rate of tax on gross earnings of railroads varies with the amount by which net railway operating income exceeds gross earnings (i.e., when net railway operating income does not exceed 8%, the rate of tax is two percent of gross earnings and the rate increases by one quarter of one percent for each additional 2% that net operating income exceeds gross earnings. When the net income exceeds eighteen per cent of gross earnings, the tax rate is three one-half percent.)

Exemptions

- Railroad companies are exempt if the Commissioner of Transportation certifies that the railroad company has undertaken certain facility and or service improvements in this state, but must pay a fee of \$20. (CGS Sec. 12-251)
- Natural gas sold as motor vehicle fuel is exempted from the tax, effective 7/1/94. (CGS Sec. 12-217(i) and PA 99-173)
- Earnings from sales of propane used as motor vehicle fuel are exempted from the tax (CGS Sec. 12-264(a))
- Tax on gas and electricity supplied to manufacturing customers in SICs 2000-3999 is be phased out (CGS Sec. 265(c))

Deductions -

- All sales for resale of water, steam, gas and electricity to public service corporations and municipal utilities CGS Sec. 12-265(b)(1).
- Appliances sold by utility companies CGS Sec. 12-265(b)(3).
- Real Estate Property Taxes paid by railroad companies. CGS Sec. 12-251(b).

Credits - The following credits are available to taxpayers:

- Air Pollution Abatement Facilities and Industrial Waste Treatment Facilities - 5% of expenditures for construction, rebuilding, acquisition, expansion or planning such facilities. (Railroad companies: CGS Sec. 12-252a and 252b; Express, Telegraph, Cable and Community Antenna Companies: CGS Sec. 12-258b and 258c; Utility Companies: CGS Sec. 12-265b and 265c)

- Data Processing Equipment - 100% of the Property Tax paid on such equipment, effective with the 10/1/94 grand list (CGS Sec. 12-217(t))
- Tax Credit for rehabilitating historic homes. (CGS Sec. 10-320j)
- Remediation of Urban Sites (CGS. Sec. 32-9t)

Payment - Railroad express companies must pay the annual tax by July 1. Community Antenna Television companies are required to pay their entire tax on or before April 1 (CGS Sec. 12-256). Gas, electric steam and power companies are required to pay their taxes in quarterly payments, due on the last days of January, April, July and October (CGS Sec. 12-264). Railroad companies are required to pay one-half of the preceding calendar year tax liability on June 15, and the remaining half on November 15, (CGS Sec. 12-253).

PETROLEUM COMPANY GROSS EARNINGS TAX (CGS Section 12-587)

PA 80-71 enacted the petroleum company gross earnings tax. It subjects companies that distribute petroleum products in Connecticut to a 5% tax on the gross earnings from such sales or use in this state. (CGS Sec 12-587). Currently there are approximately 670 taxpayers remitting this tax on a quarterly basis.

Computation of Tax

Rate & Basis - A gross earnings tax is imposed on companies distributing petroleum products to wholesale and retail dealers for marketing and distribution in the state. The rate is 5% on gross earnings from sales of petroleum products in this state and gross earnings from sales of petroleum products in this state by any corporation in which the taxpayer owns twenty-five percent or more of the stock of such corporation. Petroleum products include gasoline, aviation fuel, kerosene, diesel fuel, benzyl, distillate fuels, residual fuels, crude oil and derivatives of petroleum such as paint, detergents, antiseptics, fertilizers, nylon, asphalt, plastics and other similar products (CGS Sec. 12-587).

A use tax of 5% is imposed on companies that import petroleum products into the state for their own consumption if the value of these products in any quarter is more than \$100,000.

Exemptions - Gross earnings from the following are exempt:

- #2 heating oil used for heating purposes (CGS Sec 12-587(a))
- #2 heating oil used in commercial fishing vessels (CGS Sec 12-587(a))
- Propane used for residential heating purposes (CGS Sec 12-587(a))
- Bunker fuel oil, intermediate fuel, marine diesel oil and marine gas oil used in vessels displacing more than 4,000 weight tons (CGS Sec 12-587(a))
- Kerosene used for home heating (CGS Sec 12-587(a))
- Propane gas used as a motor fuel (CGS Sec 12-587(a))
- Fuel used in vessels primarily engaged in interstate commerce. The tax is phased out 1% per year beginning with the 1998 income year. (CGS Sec 12-587(a))
- #6 fuel oil used by industrial consumers in Standard Industrial Classification Codes 2000-3999. The tax is phased out 1% per year beginning with the 1998 income year. (CGS Sec 12-587(a))
- Fuel in Fuel Supply Tanks of Motor Vehicles When the Tanks are Connected to the Engine. (CGS Sec. 12-587(c))
- DOT Contracted Service Stations Along State Highways
- Paraffin and Microcrystalline Waxes (CGS Sec. 12-587(a))

Credits - Credit for Sale of Petroleum Products to Reseller who sells products outside the State (CGS Sec. 12-587a)

Payment - The tax is payable on or before the last day of the month following each quarterly period of the year based on the preceding quarter's gross earnings from the in-state sale of petroleum products. (CGS Sec. 12-590)

INSURANCE PREMIUMS TAX (CGS Section 12-201)

Insurance Companies, Hospital & Medical Services Corporation Tax

A tax on insurance premiums was first enacted in Connecticut in 1935. The tax is imposed on domestic, foreign insurance companies and health care centers on all net direct premiums received from policies, written on property or risk located in Connecticut, at a rate of 1.75% of premium. Premiums for unauthorized insurance businesses are taxed at the rate of 4% of their receipts on Connecticut risk.

Domestic insurance companies are incorporated under Connecticut state law and licensed by the Insurance Commissioner to issue policies. Nonresident or foreign insurance companies are incorporated under the laws of another state or foreign government but must be licensed by the Insurance Commissioner in order to issue policies in this state. Unlicensed insurance companies must register with the Insurance Commissioner and may only then offer lines generally unavailable from licensed insurers.

Computation of Tax

Insurance Premiums Tax

Rate & Basis - The tax is levied as follows (CGS Sec. 12-202):

1. Domestic companies: 1.75% on all net direct insurance premiums derived from policies written in this state. (The tax on interest and dividends was terminated 12/31/73). (CGS Sec. 12-202)
2. Foreign companies: 1.75% on all taxable net direct premiums derived from policies written in this state.

Exemptions

- Municipal risk pools (CGS Sec. 7-479e)
- Special taxing district policies (CGS Sec. 38a-743)
- Fraternal Benefit Societies (CGS Sec. 38a-604)
- Ocean Marine Insurance (CGS Sec. 12-210)
- State Employee Health Plans (CGS Sec. 12-202a)
- Contracts written for Medicaid, HUSKY Program, or for clients on welfare (CGS Sec. 12-202a)
- Small Employer Health Insurance Plans (CGS Sec. 38a-566)
- Health Care Coverage for Municipal Employees and Non-Profit Organizations (CGS Sec. 12-202a)

Credits - The following credits are available to taxpayers:

- Personal Property Tax on Data Processing Equipment (CGS Sec. 12-217t)
- Insurance Reinvestment Fund (CGS Sec. 38a-88a)
- Rehabilitation of Historic Homes (CGS Sec. 10-320j)
- Remediation of Urban Sites (CGS Sec. 32-9t)
- Donation of computers to local schools (10-228b)
- Payments to CT Insurance Guaranty and CT Life and Health Insurance Guaranty Association (CGS Sec. 38a-866(h))
- HMOs providing coverage through HUSKY A or HUSKY B (CGS Sec. 12-202a)

Payment - Both domestic and foreign insurance companies are required to pay 30% of their estimated tax by March 15, 60% by June 15, 80% by September 15 and 100% by December 15. Any remaining tax is due on or before March 1 (CGS Sec. 12-204b, 205). Companies have the option of making estimated payments based on (1) current year estimated tax liability or (2) the prior year's estimated tax payment. Corporations may avoid interest by making estimated payments based on the prior year's estimated payment (CGS 12-204c).

Hospital and Medical Services Corporation Tax

Rate & Basis - The tax is imposed upon all hospital and medical service companies at a rate of 2% on the total net direct subscriber charges received by such corporations during the preceding year. (CGS Sec. 12-212a)

Payment - same as for the Insurance Premiums Tax (see above)

Unauthorized (Unlicensed) Insurance Company Tax

Rate & Basis - A 4% tax is levied on unlicensed companies on gross premiums derived from policies written in the state (CGS Sec. 38a-743).

Payment - The tax is due on the first of May, August, November, and February for the premiums paid in the preceding quarter.

**REAL ESTATE CONVEYANCE AND
CONTROLLING INTEREST TRANSFER TAXES
(CGS Sections 12-494 and 12-638a)**

Real Estate Conveyance Tax

The Real Estate Conveyance Tax was enacted on the municipal level in 1967 and became a General Fund tax in 1983. It is imposed on the full purchase price of all conveyed real property and is due from the seller of the property.

Rate & Basis - (CGS Sec. 12-494) A tax is imposed on the conveyance of each deed, instrument or writing whereby any lands, tenements or other realty is granted, assigned, transferred or otherwise conveyed to a purchaser. The tax rate depends on the property's classification and purchase price, as noted below:

<u>Type of Property</u>	<u>Tax Rate</u>	<u>CGS Section</u>
Unimproved land	0.5%	12-494(a)
Residential Dwelling:		
First \$800,000 of purchase price	0.5%	12-494(b)(2)(A)
Portion that exceeds \$800,000 of purchase price	1.0%	12-494(b)(2)(B)
Residential Property other than a dwelling	0.5%	12-494(a)
Nonresidential Property other than unimproved land	1.0%	12-494(b)(1)
Delinquent Mortgages	0.5%	12-494(b)(3)

Exemptions - (CGS Sec. 12-498 unless otherwise noted)

- Deeds which this state is prohibited from taxing under the Constitution or laws of the United States
- Deeds to which this state or any of its political subdivisions or their respective agency is a party
- Deeds recorded prior to July 1, 1983
- Deeds which secure a debt or other obligation
- Tax Deeds
- Deeds of release of property used as security for debts or other obligations
- Deeds of partition
- Deeds made pursuant to mergers of corporations
- Deeds made by a subsidiary corporation to its parent corporation for no consideration other than the cancellation or surrender of the subsidiary stock
- Deeds for all property located in an area of any municipality designated as an enterprise zone in accordance with CGS Sec. 32-70 and property located in an entertainment district designated under CGS Sec. 32-76
- Transfers which occur as a result of a superior court decree
- Transfers in which no consideration is offered
- Conveyances valued at less than \$2,000
- Transfers between affiliated, federally tax exempt corporations in which one corporation owns or controls 100% of the other, or a third corporation owns or controls 100% of both
- Transfers between certain tax-exempt corporations, effective 7/1/91
- Deeds of residence of any person approved for elderly property tax relief

- Real property transfers to nonprofit organizations that hold land in trust for conservation and recreational purposes, effective 7/1/91
- Transfers of burial rights for a lot in a cemetery (CGS 12-497a)
- Farmland development rights sold to the State (CGS Sec 12-504c)
- Deeds of property for the Adriaen's Landing Site or Stadium (CGS 12-498(a))

Payment -The tax is paid to the town clerk upon the recording of the conveyance and remitted to the State within ten days.

The Farm, Forest and Open Space Program

In 1963, the legislature established this program to preserve farm, forest and open space land using preferential taxation. The program permits landowners to pay a reduced amount of Property Tax on land which has been classified as farm, forest or open space for a period of ten years. The Property Tax reduction is accomplished by assessing the land's value based on its current use rather than its market value.

An additional Real Estate Conveyance Tax is levied on the sale of such land while it is in the program. For open space land, the additional tax is due if the land is sold within ten years of when it is classified for the program (CGS Sec. 12-504a(a)). For farm or forest land, the additional tax is due if the period of ownership of the land is ten years or less (CGS Sec. 12-504a(b)). The rate of additional tax begins with 10% in the first year and declines to 1% in the tenth year. If the property is sold after the tenth year, only Real Estate Conveyance Tax at the normal rate is due.

The exemptions to the additional tax on farm, forest and open space parallel those for the Real Estate Conveyance Tax, with the following exceptions:

Exemptions - (CGS Sec. 12-504c unless otherwise noted)

- Transfers of land resulting from eminent domain proceedings.
- Strawman deeds and deeds which correct, modify, supplement or confirm a deed previously recorded.
- Deeds with special covenants.
- Farmland development right sold to the state.

Controlling Interest Transfer Tax

A tax is imposed on the transfer of a controlling interest in a corporation, partnership, association, trust or other entity, where an entity owns an interest in Connecticut real property with a value of at least \$2,000. In a corporation, "controlling interest" means more than 50% of the combined voting power of all classes of stock in the corporation. For all other entities, "controlling interest" is an amount greater than 50% of the capital, profits or beneficial interest in that entity. (CGS Sec 12-638b(a))

Rate & Basis - A tax of 1.11% is imposed upon the value of any real property held by any corporation, partnership, association, trust or other entity when the interest in the real property is transferred. An additional tax of 1.0% to 10.0% is added if the property was classified as farm land, open space or forest. The additional rate decreases, the longer the land has been held. A transfer is deemed to occur if more than 50% but less than 100% of the total combined voting power of all classes of stock is sold or transferred.

Exemptions

- Sale or transfer of a controlling interest in any entity which possesses an interest in real property located in an enterprise zone
- Transfer of land resulting from eminent domain proceedings
- Mortgage deeds
- Deeds to or by the United States of America, State of Connecticut or any political subdivision or agency

- Tax deeds
- Deeds releasing any property which is a security for debt or other obligation
- Deeds to any corporation, trust or other entity, of land to be held in perpetuity for education, scientific, aesthetic or other equivalent passive use

Payment - The payment is due on or before the last day of the month following the month in which transfer of controlling interest occurs.

CIGARETTE AND TOBACCO PRODUCTS TAX (CGS Section 12-296)

Computation of the Tax

A tax is levied on all cigarettes held by distributors in the state (CGS Sec. 12-296) and on the use or storage of unstamped cigarettes (CGS Sec. 12-316). Distributors must pay a floor tax reflecting the increased taxes for cigarettes in inventory when higher taxes go into effect. Distributors, dealers and vending machine operators must be licensed by the Department of Revenue Services. A tax is imposed on all tobacco products held in this state by distributors or unclassified importers.

Rate & Basis - The Cigarette Tax is levied on all cigarettes held by distributors in the state at a rate of 25 mills per cigarette, or 50 cents per pack of 20 (CGS Sec. 12-296). Payment of the tax is indicated by affixing heat applied decals to each pack of cigarettes. The decals are sold to licensed dealers and licensed distributors, who must report to the Commissioner of Revenue Services on a monthly basis. There are approximately 70 taxpayers who file monthly.

A tax is imposed on all tobacco products, except, snuff held in this state by distributors or unclassified importers at a rate of 20% of the wholesale price. The tax is levied on such tobacco products as cigars, cheroots, stogies, periques, chewing tobacco, but excludes cigarettes and "roll your own" tobacco (CGS Sec. 12-330a). The tax on snuff is calculated at 40 cents per ounce instead of the 20% of the wholesale price (CGS Sec. 12-330c). Distributors must be licensed annually and file monthly returns. The tax has been in effect since July 1, 1989 and is paid by approximately 200 distributors.

Exemptions -

- Cigarettes sold to state institutions for distribution to and consumption by patients (CGS Sec. 12-297); Sales to inmates at correctional institutions are taxable.
- Cigarettes sold for use on military bases (1937 Attorney General's Office opinion)
- Cigarettes imported into the state in an amount of no more than two hundred (Sec. 12-320)
- Tobacco products that are exported from the state or are not subject to taxation under federal law (CGS Sec. 12-330c(c))
- Tobacco products sold to the federal government (1937 Attorney General's Office opinion)

Payment - Cigarette distributors must acquire stamps from the Department of Revenue Services, which are affixed to each package of cigarettes. The stamps may be paid for immediately or within 30 days from the date of purchase (CGS Sec. 12-298). The Tobacco Products Tax is payable on or before the tenth day of each month, for sales in the preceding calendar month (CGS Sec. 12-330d).

**ALCOHOLIC BEVERAGE TAX
(CGS Section 12-433)**

Computation of the Tax

All distributors of alcohol beverages are required to pay tax to Connecticut on all sales of alcoholic beverages within the state (CGS Sec. 12-435). Distributors must be licensed by the Department of Revenue Services. There are approximately 80 distributors who file monthly with the Department of Revenue Services.

Rate & Basis - The tax rates for distributors of beer, liquor, and wine sold within the state are as follows (CGS Sec. 12-435):

Beer	\$6.00 per barrel
Beer	.20 per gallon
Still Wines (1)	.60 per gallon
Still Wines from Small Wineries (2)	.15 per gallon
Sparkling Wines	1.50 per gallon
Alcohol	4.50 per proof gallon
Distilled Liquor	4.50 per gallon
Liquor Coolers	2.05 per gallon

- (1) Still wine consists of 21% absolute alcohol, or less, per gallon.
- (2) Small Wineries are Wineries which produce up to 55,000 gallons annually.

Exemptions - (CGS Sec. 12-435 unless otherwise noted)

- Sales to the United States Military (1937 Attorney General's Office opinion)
- Alcoholic beverage sales to licensed distributors and Ethyl Alcohol
- Alcoholic beverage sales for transport out-of-state
- Malt beverage sales for on-premises consumption when covered by a manufacturer's permit.
- Alcoholic Beverages brought into this State of 4 gallons or less (CGS Sec. 12-436)

Payment - The tax is payable on or before the last day of each month for sales in the preceding calendar month (CGS Sec. 12-437).

ADMISSIONS AND DUES TAXES (CGS Section 12-523)

The Admissions and Dues Taxes (formerly Admissions, Dues and Cabaret Taxes) are two separate taxes which were enacted by PA 71-837. The Admissions Tax is levied on the admissions charge to a place of amusement, entertainment or recreation. (CGS Sec. 12-541)

The Dues Tax is levied on the amount paid as membership dues or initiation fees to a social, athletic or sporting club. (CGS Sec. 12-543)

The Cabaret Tax was repealed effective July 1, 1999 by PA 99-173. Originally, the Cabaret Tax was levied on the amount charged for admission, refreshment service or merchandise at a cabaret or similar place furnishing music, dancing privileges, or other entertainment for profit, at the rate of 5% (CGS Sec. 12-542--REPEALED). PA 00-170 exempts establishments from the Admission Tax that were subject to the Cabaret Tax before July 1, 1999 (CGS Sec. 12-541).

Rate & Basis:

1. The admission charge to any place of amusement, entertainment or recreation is taxed at 10% (CGS Sec. 12-541). PA 00-170 reduced the tax on movie theater tickets from a rate of 10% to 8% effective 7/1/00 and to 6% effective 7/1/01 and there after.
2. The amount paid as membership dues or initiation fees to any social, athletic or sporting club is taxed at 10% (CGS Sec. 12-543).

Exemptions - (CGS Sec. 12-541 unless otherwise indicated):

- Admissions to nonprofit organizations including the Hartford Civic Center and the New Haven Coliseum
- Admissions under \$1 and movie theatre tickets under \$5.00
- Live performances at nonprofit theaters or playhouses or at Gateway's Candlewood Playhouse and Ocean Beach Park.
- Daily admissions to sporting or athletic activities in which patrons participate
- Admissions to Beehive Stadium and The William O'Neill Center, the New Britain Veterans Memorial Stadium, the Tennis Foundation of Connecticut, Stafford Motor Speedway, Lime Rock Park, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, and the Connecticut Expo Center.
- Carnival and amusement rides
- Health club charges
- Charges for instructions
- Dues under \$100 annually
- Dues of a charitable, religious, governmental or nonprofit educational institution
- Dues of a society, order or association operating under the lodge system or a local fraternal organization for college or university students
- Dues of lawn bowling clubs
- Club Locker Rentals
- Establishments subject to the Cabaret Tax before July 1, 1999

Payment - The tax is payable on or before the last day of each month for business conducted during the preceding calendar month.

MISCELLANEOUS TAXES

This section summarizes various minor taxes in order to provide a completed description of all taxes. The revenue collected from some of the tax sources explained below are earmarked for specific purposes such as funding environmental programs.

Boxing and Wrestling Matches Tax

Rate & Basis - The tax is imposed at the rate of 5% on the total receipts after the deduction of federal taxes from the paid admissions to boxing and wrestling matches (CGS Sec. 21a-195a).

Payment - The tax is payable within 24 hours after the end of a boxing exhibition or wrestling match and must be accompanied by a report stating ticket sales and gross receipts (CGS Sec. 21a-199).

Dry Cleaning Surcharge

Rate & Basis - The surcharge of 1% of gross receipts charged at retail by dry cleaning establishments is used to provide grants to dry cleaning establishments for the purpose of the containment and removal or mitigation of environmental pollution resulting from dry cleaning activity. The surcharge is also used to fund measures, which are approved by the Commissioner of Economic and Community Development, undertaken to prevent pollution. Monies collected are deposited into the Dry Cleaning Re-mediation Account, which is used to provide these grants. (CGS Sec. 12-263m)

Payment - Quarterly, by approximately 600 taxpayers.

Marijuana and Controlled Substances Tax

Rate & Basis - An excise tax is imposed on marijuana and other controlled substances illegally purchased, acquired, transported or imported into the state. Taxes are assessed at the rate of \$3.50 per gram of marijuana, \$200 per gram of controlled substance and \$2,000 per 50-dosage unit of controlled substance not sold by weight. (CGS Sec. 12-651)

Payment - Payment of the tax is indicated by stamps, which are issued in multiples of \$10. Prior to 7/1/95, interest on unpaid taxes is 1.25% per month from the due date of the tax until payment. After 7/1/95, the interest rate is 1% per month or 12% annually (PA 95-26). Nonpayment penalty is 10% of the unpaid tax or \$50, whichever is greater. If tax evasion was due to fraudulent intent, the penalty is 25% of the unpaid tax. Additional penalties include a fine of up to \$10,000, imprisonment for up to 6 years and a penalty of 100% of the tax in addition to the tax.

Exclusion - Tax not applicable to persons lawfully in possession of marijuana or a controlled substance.

Passenger Motor Vehicle Rental Surcharge

Rate & Basis - A surcharge of 3% per day is imposed on the rental of each private passenger motor vehicle in Connecticut by a rental company for a period of less than 31 days. Rental companies must pay over the portion of the surcharge collected during the calendar year that exceeds the amount paid to Connecticut municipalities in personal property tax and the amount paid to the CT Department of Motor Vehicle in titling and registration fees. (CGS Sec. 12-692)

Exemptions -

- Motor vehicles delivered to a lessee outside Connecticut
- Rentals by an agency of the US Government
- Rentals of 31 days or more
- Rentals of motor vehicles by a person that is not a rental company

Payment - Annually.

Non-Profit Prepaid Legal Services Corporation Tax

Rate & Basis - A tax is levied on all nonprofit legal service corporations at the rate of 2% of the total net direct subscriber charges (CGS Sec. 38a-242); (net direct subscriber charges are gross direct subscriber charges less returned subscriber charges including cancellations).

Payment - The tax is payable on or before March 1, annually.

Occupational Tax

Rate & Basis - A tax of \$450 a year is levied on any person who has been admitted as an attorney by the judges of the superior court and who is engaged in the practice of law including the performance of judicial duties (CGS Sec. 51-81b).

Exemptions -

- Judges and employees of the State
- Any attorney who has retired from the practice of law
- Any attorney serving on active duty with the US Armed Forces for more than six months of a given year
- Attorneys employed by the Probate Court

Payment - The tax is payable on or before January 15 for the preceding year by 12,250 taxpayers (CGS Sec. 51-81b).

Oyster Grounds Tax

Rate & Basis - The tax is imposed upon the owner of any oyster franchise or grounds within the exclusive jurisdiction of the state at the rate of 2% of the valuation of that franchise as determined by the Commissioner of Agriculture (CGS Sec. 26-207, 208).

Payment - The tax is payable on or before the first Monday in March, annually, based on the assessment performed in the preceding January (CGS Sec. 26-210).

Seed Oyster Tax

Rate & Basis - The tax is levied at 10% of the retail value of harvested seed oyster. All revenue collected from the tax is deposited into a special fund used for the Shellfish Program administered by the Department of Agriculture's Aquaculture Division. (CGS Sec. 26-237c)

Payment - Quarterly.

Solid Waste Tax

Rate & Basis - The Solid Waste Tax is levied at \$1.00 per ton of solid waste processed on the owners of commercial resource recovery facilities which process municipal solid waste to reclaim energy. (CGS Sec. 22a-232) The revenue is deposited in the solid waste account of the Environmental Quality Fund.

Payment - Quarterly

Tourism Account Surcharge

Rate & Basis - A surcharge is levied on the rental and leasing of passenger motor vehicles for fewer than 30 days. Revenues generated by the surcharge are deposited into the "Tourism Account" to be allocated for the purpose of strategic marketing plans and challenge grants required under CGS Sec 32-300. The rate is \$1.00 per rental/leasing day or portion thereof, of passenger motor vehicles. (CGS Sec. 12-665 to 12-668)

Exemptions - The rental of leasing of a motor vehicle pursuant to a written agreement, which has a term of more than 30 days.

Payment – Quarterly and monthly.

GENERAL FUND NON-TAX REVENUE SOURCES

The following is a description of each General Fund non-tax revenue item based on FY 01 actuals. The descriptions and tables are basically a listing of the type of revenue items that fall within each category. For example, under federal grants, Medicaid grant reimbursements provide 70.5 percent of the revenue from federal grants. These percentages are intended to provide a perspective of the revenue producers within each major category.

<u>Federal Grants</u>	<u>FY 01</u>
Medicaid including disproportionate share reimbursement & HUSKY	71.4%
Temporary Assistance to Needy Families including Emergency Assistance or Families	17.1%
Administrative costs of Welfare and Social Services Programs	5.1%
Other Federal Grants	6.3%
Total	100.0%

<u>Fines and Escheats and Rents</u>	<u>FY 01</u>
Escheats	74.9%
Fines imposed by State Agencies	20.0%
Rents	5.1%
Total	100.0%

Gambling Revenue

The state's gaming activities are organized into four general areas: racing, off-track betting, lottery and charitable gaming. Although administered by the Division, the revenue from charitable gaming activities is included as part of the "Miscellaneous fees" category within "Licenses, Permits and Fees". A summary of each activity, with the basis and percentage of revenue from each appears below.

Racing - This area includes horse racing, dog racing and exhibition of jai-alai. Currently, dog racing and jai alai are operational in the state. The state imposes a tax (modified by PA 93-332) on the gross amount wagered at each facility based on a sliding scale of 2%-4%, except for Bridgeport Dog Track which will be a flat 2% once the conversion from a Jai Alai facility is completed. Additionally, a tax equal to one half the breakage to the dime is imposed on each facility. Breakage results from the rounding of payoffs to the lower dime. The state, from the tax revenue it collects, makes payments to municipalities where each facility is located. Municipalities with populations in excess of 50,000 receive 1% of the gross amount wagered at each facility, and towns with populations under 50,000 receive .5%. However, pursuant to SA 91-40, starting in FY 1992-93, the town of Plainfield began to receive .8% of the total amount wagered. The remaining tax revenue is transferred to the General Fund (C.G.S. Sec. 12-573a).

Off-track Betting - Pursuant to Public Act 93-332 the state sold the rights to operate the Off-track betting (OTB) system. As of July 1, 1993 the state imposes a tax of 3.5% on the OTB licensee on the total gross amount wagered. Effective July 1, 1997, Public Act 97-277, increases the percentage of the tax distributed to municipalities with OTB facilities from 1% to 1.6%, thereby reducing the percentage that the state retains from 2.5% to 1.9%. Additionally, a tax equal to one-half of the breakage to the dime is imposed on the OTB licensee. Breakage results from the rounding of payoffs to the lower dime.

Public Act 97-277 also increases from 4 to 8 the total number of the 18 currently authorized OTB facilities that may simulcast (provide live television coverage of) pari-mutuel events. Prior to the change in law the four facilities permitted to simulcast were: Windsor Locks Teletheater, New Haven Teletheater, Plainfield Greyhound Park, and Bridgeport Jai Alai.

Before July 1, 1993, the state operated the off-track betting system that included nine branch facilities; a telephone betting system, the New Haven Teletrack, and the Bradley Teletheater in Windsor Locks. From the gross amount wagered, the state retained 17% on regular wagering (win, place, show); 19% on certain multiple form of wagering (daily, doubles, exactas and quennelles); and 25% on the more "exotic" form of wagering (wagering on three or more animals in the same race or in two or more races). The Division of Special Revenue annually made transfers to the General Fund all of funds retained net of operating expenses. Towns where off-track betting parlors are found receive 1% of the gross handle wagered at the facility.

Lottery - Six different lottery games are conducted in the state: Instant, Daily Numbers, Play 4, Cash 5, Lotto and Power Ball. Drawings for Daily Numbers, Play 4 and Cash 5 are held seven days a week and Lotto drawings are held on Tuesdays and Fridays. Power Ball's game structure is similar to the Lotto game: five numbers plus a supplemental number are selected from a field of forty-five numbers. Power Ball drawings are held on Wednesdays and Saturdays, with a guaranteed minimum jackpot of \$5 million.

PA 96-212 created the Connecticut Lottery Corporation (CLC), a quasi-public corporation which operates the State's lottery games. The public act provides for transfers of lottery proceeds to the General Fund, net of the CLC's cost of operating the games. In FY 1996-97, approximately 58.5% of gross sales were paid as prize money to winning ticket holders, 32.6% was transferred to the General Fund, and the remaining 8.9% was used for CLC expenses, including administrative costs, reimbursement of the Division of Special Revenue for the cost of regulatory oversight, and contributions to the Chronic Gamblers Fund, which is administered by the Department of Mental Health.

Charitable Games - This area includes bingo, bazaars, raffles and games of chance. All organizations conducting bingo are subject to a 5% tax on their gross receipts from bingo less prizes. The State, from the money it collects from bingo makes payments to municipalities in which bingo games are conducted. The payment is equal to one-quarter of 1% of the total money wagered less prizes within the town. The remainder of the tax revenue is transferred to the General Fund. Organizations authorized to sell sealed tickets (similar to the State's instant lottery tickets) must pay to the State an amount equal to 10% of their resale value. (C.G.S. Sec. 7-169 to 7-186p)

Indian Gaming Payments

On January 13, 1993 (later amended on April 30, 1993) a Memorandum of Understanding was signed between the State of Connecticut and the Mashantucket Pequot Tribe. The Memorandum gave the Tribe the exclusive right to operate slot machines within Connecticut, and in exchange the Tribe agreed to make an annual contribution to the State.

The Memorandum (as amended) required the Tribe to contribute a minimum of \$30 million for FY 93, a minimum of \$113 million in FY 94, and 25% of the gross operating revenue or \$100 million, whichever is greater, for FY 95 and thereafter.

On April 25, 1994 the State, the Mashantucket Pequot Tribe, and the Mohegan Tribe all agreed to allow the Mohegan Tribe to operate slots machines. The agreement between the three parties' calls for the Mashantucket Pequot Tribe to continue to make annual contributions of 25% of the gross revenue from slot operations or \$80 million, whichever is greater, until the Mohegan's begin to operate slot machines. In October 1996, the Mohegan's opened the Mohegan Sun Casino, therefore beginning in FY 97 and each year thereafter each tribe will contribute 25% of the gross revenue from their slot machine operations or \$80 million, whichever is greater.

<u>Gambling Revenue and Indian Gaming</u>	<u>FY 01</u>
Dog Racing	0.03%
Jai-Alai	0.05%
Off Track Betting	0.9%
Instant Lottery	21.2%
Daily Lottery	11.5%
Lotto	2.0%
Cash Lotto	2.7%
Power Ball	7.0%
Indian Gaming Payments	57.5%
Total	100.0%

<u>Investment Income</u>	<u>FY 01</u>
Investment Income	4.5%
Principal on Loans	1.7%
Other (Housing and Energy Conservation Loan Interest)	2.6%
Miscellaneous Interest	91.2%
Total	100.0%

<u>License, Permits and Fees</u>	<u>FY 01</u>
Fees for Legal Service (primarily fines of courts)	37.9%
License to render professional services or engage in skilled trades	25.0%
Corporate filing fees	9.6%
Fees for application, examination and qualification	7.3%
License to engage in business of producing, manufacturing, or trading in commodities	3.1%
Technical and inspectional services fees	5.9%
Permits issued under liquor control legislation	4.6%
License to owners or harborers of animals and to hunt, fish, or trap	2.0%
Other permits	0.6%
Miscellaneous fees	4.0%
Total	100.0%

<u>Miscellaneous Revenue</u>	<u>FY 01</u>
Recoveries of public assistance under Title 4D	52.6%
Other recoveries of expenditures not credited to appropriations	25.0%
Refunds of prior year expenditures	17.6%
Refunds of current year expenditures	0.1%
Receipts from towns in cooperative state and town activities	4.6%
Sale of properties	0.2%
Total	100.0%

<u>Sale of Commodities and Services</u>	<u>FY 01</u>
Board and care at medical institutions (primarily insurance recoveries)	86.1%
Sales of government publications and commodities	9.8%
Camping and parking at state recreational facilities	4.1%
Total	100.0%

TRANSPORTATION FUND TAXES

MOTOR VEHICLE FUELS AND MOTOR CARRIER ROAD TAXES

The Motor Vehicle Fuels Tax is an excise tax imposed on motor vehicle fuel sold in the state.

The Motor Carrier Road Tax is levied on motor vehicle fuel used in the state by licensed motor carriers, at the same rate as the Motor Vehicle Fuels Tax (CGS Sec. 12-479).

Gasoline Tax

Rate & Basis - The tax is levied on distributors of motor fuel sold or used within the state. The rate on gasoline is 25 cents per gallon and gasohol is taxed at 1 cent less than the tax on gasoline (CGS Sec. 12-458 and 462). Diesel fuel, propane gas and natural gas used as motor vehicle fuel are taxed at 18 cents per gallon.

Exemptions - (CGS Sec. 12-455a, 458, 459, 460, 462 unless otherwise indicated)

- Fuels sold to the US government, a municipality, a transit district or the State of Connecticut at other than a retail outlet for governmental purposes and used in vehicles owned and operated or leased by the municipality, transit district or state.
- Fuel sold from one licensed distributor to another or fuel transferred to another state
- Aviation fuel when used exclusively for aviation purposes
- Fuel sold to a municipality for use by a contractor performing a service for the municipality as part of a contract
- Compressed natural gas, liquefied petroleum gas or liquefied natural gas sold between 7/1/94 and 7/1/02 (exemption expanded from covered fleets to all sales by CGS 12-217i(b); sunset extended from 2001 to 2002 by PA 99-173)
- Railroads are permitted to take their exemption at the pump rather than apply for a refund
- Fuel used in vehicles use to exclusively transport meals to senior citizens associated with federally funded nutrition programs

Refund - Tax payments are refunded when the total amount used exceeds 100 gallons in one year and the fuel has been sold for use by any one of the following (CGS Sec. 12-459, 460):

- Persons using the fuel in other than vehicles licensed for highway use
- Ambulances owned by hospitals
- Ambulances owned by any nonprofit civic organization approved by the Commissioner of Revenue Services
- Motor vehicles registered exclusively for farming purposes
- Vehicles designed and constructed primarily for purposes other than highway use and which do not have the essential characteristics of a motor vehicle as determined and approved by the Commissioner of Revenue Services
- Motor vehicles owned and operated or leased and operated by a transit district for the purposes of such transit district
- Connecticut bus companies (100%) and taxi companies (50% refund) Livery services and motor buses used to transport persons to and from airport facilities (50% refund)
- High-occupancy commuter vehicles (vans) with a seating capacity of at least 10, but no more than 15, when used to transport a minimum daily average of nine employees to and from work.
- Fuel used in vehicles to exclusively deliver meals to seniors

Payment - The tax is payable on or before the twenty-fifth day of each month based upon the preceding month's sales (CGS Sec. 12-458).

Motor Carrier Road Tax

Rate & Basis - The tax is imposed on motor carriers using Connecticut highways. It is based on the amount of motor fuel used by these carriers within the state. In the case of a motor carrier operating both within and without Connecticut, the amount of motor fuel used is determined by proportionate mileage. This tax is imposed at a rate equal to the current rate of tax per gallon on diesel fuel (\$.18). A credit is allowed for the amount of taxes paid on motor fuels purchased by the motor carrier within Connecticut (CGS Sec. 12-478 to 480)

On January 1, 1996, Connecticut entered into the International Fuel Tax Agreement (IFTA), which is a cooperative agreement among most states and provinces of Canada to simplify the collection and reporting of fuel use tax by interstate motor carriers. (CGS 12-486)

Under IFTA, fuel tax returns are filed in the base jurisdiction of the motor carrier. The base jurisdiction of a motor carrier is where the vehicle is based for registration purposes and where operations are controlled and the vehicle is operated. For IFTA fuel tax reporting, a qualified motor vehicle is a vehicle that is designed to transport persons or property and that has: two axles and a gross vehicle weight or registered gross vehicle weight over 26,000 pounds; or three or more axles regardless of weight; or when used in combination, a combined gross vehicle weight over 26,000 pounds. Motor carriers who meet this qualification, and who travel solely within the State, are not required to file a return, but instead are subject to the tax at the time of purchase. (CGS Sec. 12-478(5))

Exemptions - The following are exempt (CGS Sec. 12-478, 493):

- Connecticut motor bus companies
- Government vehicles
- School buses
- Motor buses the operation of which are exclusively for purpose of charter or special operations pursuant to authorization by the Interstate Commerce Commission, or the charter and special operation services provided by the motor carriers who primarily offer regular scheduled passenger services

Refund - The payment of the tax shall be subject to refund when the credit for Connecticut motor fuel taxes paid exceeds the motor carrier road tax (CGS Sec. 12-480).

Payment - The tax is payable quarterly and due on January 31, April 30, July 31 and October 31 (CGS Sec. 12-483).

TRANSPORTATION FUND NON-TAX REVENUE SOURCES

The following is a table of each Transportation Fund non-tax revenue item based on FY01 actuals. The table is basically a listing of the type of revenue items that fall within each category. These percentages are intended to provide a perspective of the revenue producers within each major category.

<u>Motor Vehicles Receipts</u>	<u>FY 01</u>
Motor Vehicle Registrations	82.4%
Motor Vehicles, Safety Registrations	1.5%
Motor Vehicles, Temp. Registrations	3.6%
Late Fees--Registrations	0.6%
Motor Vehicle Operators	12.0%
Total	100.0%

<u>License, Permits and Fees</u>	<u>FY 01</u>
Fees for Legal Service (primarily fines of courts)	42.0%
Fees for application, examination and qualification	9.5%
Technical and inspectional services fees	7.9%
Fines imposed by other State Agencies	6.8%
Rents	13.0%
Sale of properties	2.4%
Sale of Commodities and Services	9.4%
Miscellaneous fees, permits and recoveries	8.9%
Total	100.0%

<u>Investment Income</u>	<u>FY 01</u>
Investment Income	0.0%
Miscellaneous Interest	100.0%
Total	100.0%

<u>Statutory Transfers from General Fund</u>	<u>FY 01</u>
Oil Companies	43.4%
Sales Tax DMV	56.6%
Total	100.0%

<u>Federal Grants</u>	<u>FY 01</u>
Reimbursement for Mass Transit Operating Expenses	100.0%

- Notes -